February
1983

Baseline Budget Projections for Fiscal Years 1984–1988

A Report to the Senate and House Committees on the Budget —Part II

As Required by Public Law 93-344

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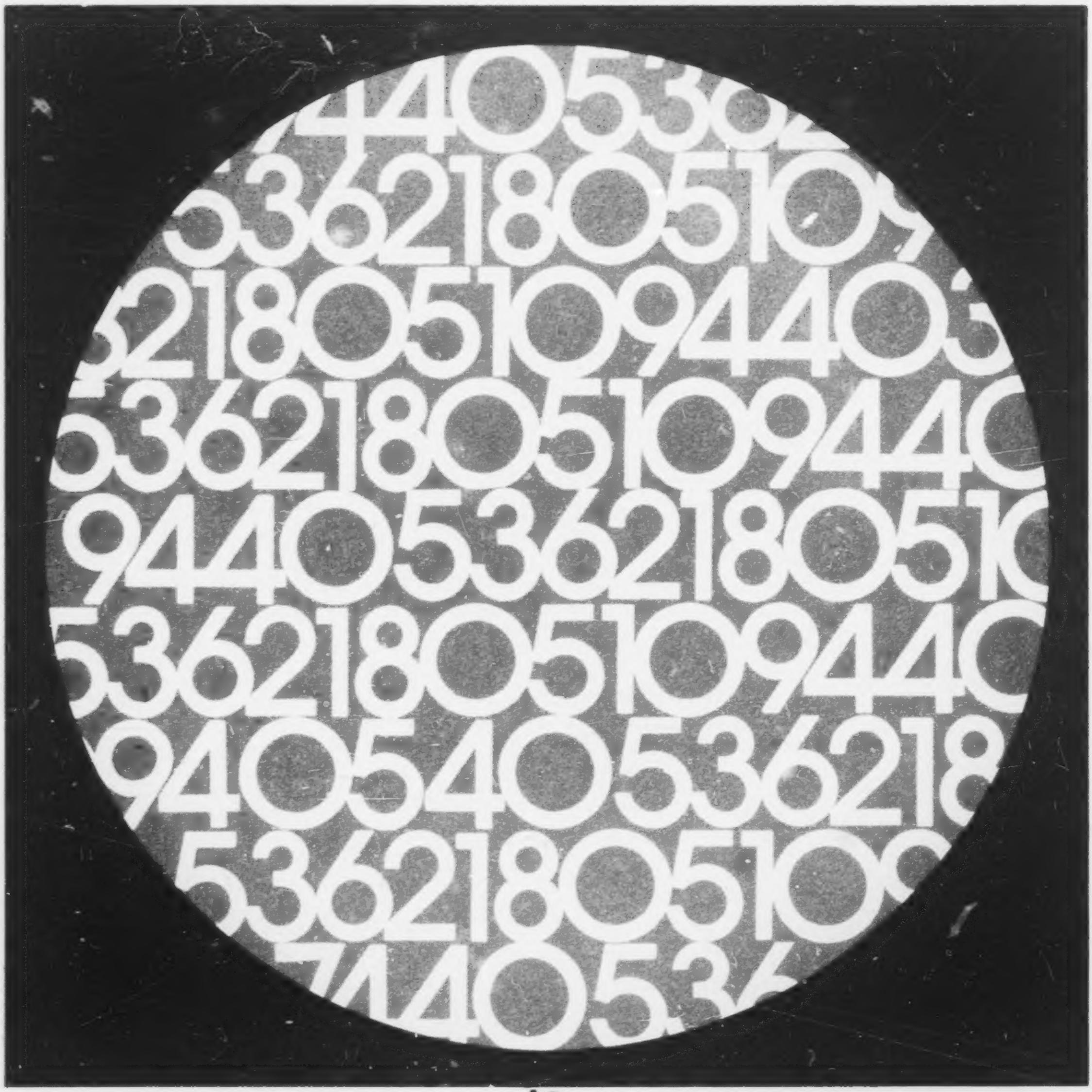

CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

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BASELINE BUDGET PROJECTIONS
FOR FISCAL YEARS 1984-1988

The United States Congress
Congressional Budget Office

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NOTES

Unless otherwise noted, all years referred to in this report are fiscal years.

Details in the text, tables, and figures of this report may not add to the totals because of rounding.

In tables, BA refers to budget authority, O signifies outlays.

PREFACE

The Congressional Budget Office (CBO) is required by section 202(f) of the Congressional Budget Act of 1974 to submit an annual report on budgetary options to the House and Senate Committees on the Budget. This year, the report is in three parts: The Outlook for Economic Recovery, Baseline Budget Projections for Fiscal Years 1984-1988, and Reducing the Deficit: Spending and Revenue Options.

Part II, Baseline Budget Projections for Fiscal Years 1984-1988, presents projections of federal revenues and spending that could occur if current laws and policies were to continue unchanged for the next five years. The projections do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They do provide, however, a useful baseline or benchmark against which proposed changes in taxes or spending programs may be measured and assessed.

The Congressional Budget Office is required under section 308(c) of the Congressional Budget Act to issue a report each year that projects new budget authority, outlays, and revenues for the next five years. This report fulfills that statutory requirement for fiscal years 1984 to 1988. The Congressional Budget Act also requires CBO to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

The baseline budget projections were prepared by staff of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum and James M. Verdier. The principal authors were Paul N. Van de Water, Rosemary D. Marcuss (Chapter III), and Charles J. Richardson (Chapter V). Robert L. Faherty and Francis S. Pierce edited the manuscript, assisted by Nancy Brooks. David A. Bashore prepared the report for publication.

Alice M. Rivlin
Director

February 1983

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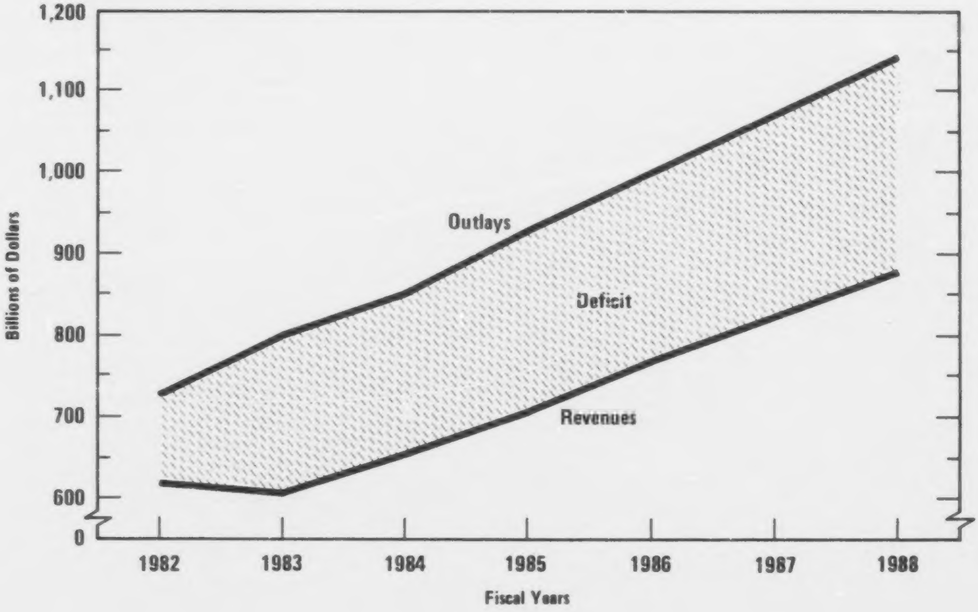
SUMMARY

Each year, the Congress makes numerous decisions about how laws and policies affecting the budget should be changed to meet fiscal policy goals and national needs. In making these decisions, a useful starting point is to know what might happen to the budget under current laws and policies. This report provides such an assessment. The baseline budget projections that it presents are not a forecast of future budget outcomes, but they are a useful analytical tool for budget decisionmaking.

Again this year, the principal feature of the baseline budget projections is large and growing deficits. As a result of the current deep recession and the high level of unemployment, the federal budget deficit is expected to reach a new postwar high of $194 billion in fiscal year 1983. Under the Congressional Budget Office's (CBO's) baseline economic assumptions, and assuming no change in current taxing and spending policies, the unified budget deficit is projected to grow steadily to $197 billion in 1984, $214 billion in 1985, and $267 billion in 1988 (see Summary Figure 1), despite projected economic recovery.

Summary Figure 1.
Baseline Projections



ECONOMIC ASSUMPTIONS

Since the performance of the economy has significant effects on federal revenues and outlays, baseline budget projections are based on explicit assumptions about economic trends over the next several years. The projections presented in this report use the CBO baseline economic forecast for calendar years 1983 and 1984, and longer-run economic assumptions for 1985-1988.

CBO projects a modest recovery from the current recession, with real growth rates of 2.1 percent in calendar year 1983 and 4.7 percent in 1984. The unemployment rate is projected to average 10.6 percent during calendar year 1983 and to decline to an average of 9.8 percent in 1984. Inflation is expected to be less than 5 percent annually during the next two years. Short-term interest rates are projected to decline somewhat from current levels in 1983 and to rise slightly in 1984 as the recovery progresses. In real terms, interest rates remain high in the forecast, providing considerable restraint on economic growth.

The longer-run economic assumptions for the 1985-1988 period are not an attempt to forecast probable economic conditions for those years. They are noncyclical projections that assume what appears to be an attainable average rate of growth. Whether this growth path is attainable with the tax and spending policies now in place is not certain.

To illustrate the uncertainty in the economic outlook and the consequences for the federal budget, CBO has produced two alternative economic paths. One path shows higher real growth, a more rapid decline in unemployment, but somewhat higher inflation. The other path shows a very weak recovery with extremely high unemployment, but with more rapidly declining inflation. The major features of the three sets of economic assumptions are shown in Summary Table 1.

BUDGET PROJECTIONS

Under baseline economic assumptions, revenues in fiscal year 1983 are estimated to be $606 billion, outlays $800 billion, and the unified budget deficit $194 billion. Assuming no change in budgetary policies, the deficit would grow by only $3 billion in 1984 and would decline from 6.1 percent to 5.6 percent of gross national product (GNP), as shown in Summary Table 2. Revenues and outlays would grow at similar rates in the following four years, and the deficit would remain a constant fraction of GNP (see Summary Figure 2).

SUMMARY TABLE 1. CBO BASELINE AND ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
High-growth alternative	9.0	11.3	9.5	9.1	8.9	8.1
CBO baseline projection	6.8	9.6	9.0	8.1	7.6	7.4
Low-growth alternative	5.4	7.9	7.9	7.2	6.6	6.4
Constant (1972) dollars (percent change, year to year)						
High-growth alternative	4.0	6.0	4.2	4.0	4.0	4.0
CBO baseline projection	2.1	4.7	4.1	3.7	3.5	3.5
Low-growth alternative	0.8	3.3	3.3	3.2	3.0	3.0
Prices						
GNP deflator (percent change, year to year)						
High-growth alternative	4.8	4.9	5.1	4.9	4.8	4.9
CBO baseline projection	4.6	4.7	4.7	4.3	3.9	3.8
Low-growth alternative	4.5	4.4	4.4	3.9	3.5	3.2
Consumer Price Index (percent change, year to year)						
High-growth alternative	4.6	5.3	5.0	4.6	4.6	4.8
CBO baseline projection	4.5	5.0	4.6	4.1	3.9	3.7
Low-growth alternative	4.5	4.9	4.4	3.8	3.4	3.2
Unemployment Rate (percent, annual average)						
High-growth alternative	9.9	8.5	7.7	7.0	6.4	6.0
CBO baseline projection	10.6	9.8	9.0	8.4	8.0	7.5
Low-growth alternative	11.2	10.9	10.3	9.8	9.4	9.0
Interest Rate (91-day Treasury bills, percent, annual average)						
High-growth alternative	4.4	5.4	5.7	5.0	5.0	4.9
CBO baseline projection	6.8	7.4	7.2	6.6	6.1	5.9
Low-growth alternative	8.4	9.9	8.9	7.7	7.2	6.3

SUMMARY TABLE 2. BASELINE PROJECTIONS (By fiscal year)

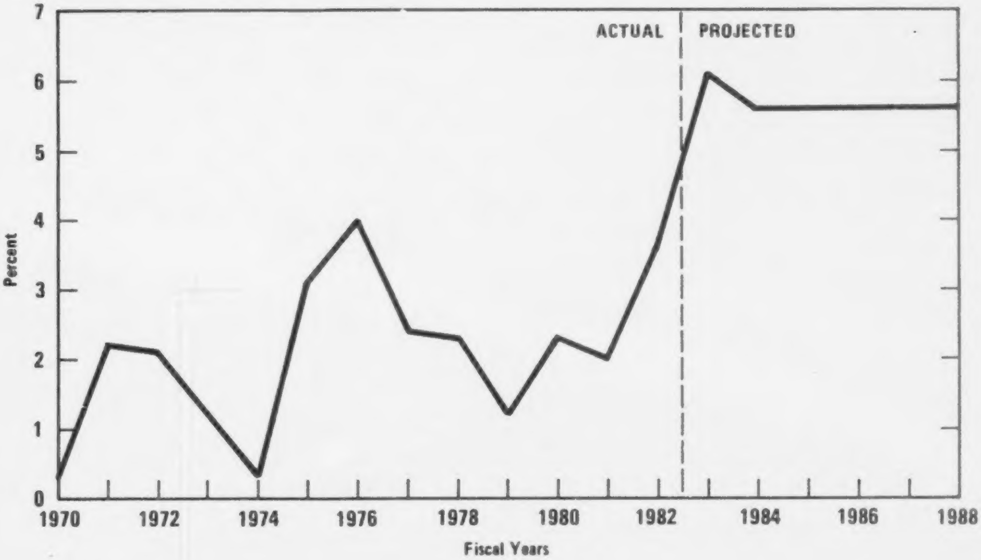
	1983 Base	Projections				
		1984	1985	1986	1987	1988
In Billions of Dollars						
Baseline Revenues	606	653	715	768	822	878
Baseline Outlays	800	850	929	999	1,072	1,145
Baseline Deficit	194	197	214	231	250	267
As a Percent of GNP						
Baseline Revenues	19.0	18.7	18.7	18.5	18.4	18.3
Baseline Outlays	25.0	24.3	24.3	24.1	24.0	23.9
Baseline Deficit	6.1	5.6	5.6	5.6	5.6	5.6

Revenues

Baseline revenue projections assume no change in current tax laws, except that airport and airway trust fund taxes are assumed to be extended at current rates beyond the present expiration date of December 31, 1987. Under the CBO baseline economic assumptions, revenues are projected to rise from an estimated $606 billion in fiscal year 1983 to $878 billion in 1988. The estimated 1983 revenues level is $12 billion below the amount collected in 1982. Because of the recession, taxable personal income growth will not be sufficient to overcome the effects of the lower 1983 personal income tax rates. Corporation income taxes also are expected to fall in 1983 because of the recession, despite the corporate tax increases enacted last year.

The projected growth in total revenues over the next five years is slightly lower than the assumed average growth in nominal GNP. As a consequence, baseline revenues as a proportion of GNP are projected to

Summary Figure 2.
Federal Deficit as a Percentage of GNP



decline from 19.0 percent in 1983 to 18.3 percent in 1988. The 1983 level is down sharply from the 1982 rate of 20.4 percent because of the scheduled reduction in individual income tax rates.

Outlays

Baseline outlay projections are more complex in concept than baseline revenue projections. Where federal spending is mandated by law, as it is for Social Security benefits and other entitlement programs, the existing laws are assumed to remain unchanged, and future spending is assumed to respond to economic conditions and other factors in the same way as in the past. Where federal spending is discretionary and subject to annual appropriations, the CBO baseline projections generally assume that the 1983 appropriation levels will be maintained, with future increases to keep pace with inflation. A major exception is for national defense programs. Here the baseline projections assume the spending levels for 1984 and 1985 as specified in the 1983 budget resolution, which provide for substantial real growth. The 1986-1988 projections for national defense programs are an extrapolation of the budget resolution targets.

In 1983, unified budget outlays are estimated at $800 billion, an increase of $72 billion from 1982. Under CBO baseline assumptions, federal outlays are projected to grow at a slightly slower pace than revenues during the next five years. Total outlays under baseline assumptions are projected to reach $850 billion in 1984 and to grow to over $1.1 trillion by 1988. Relative to GNP, baseline outlays would decline from 25.0 percent in 1983 to 23.9 percent in 1988, a ratio higher than for all postwar years before 1982.

By 1988, spending for national defense, Social Security, Medicare and Medicaid, and net interest will account for three-quarters of baseline outlays, as shown in Summary Table 3. They will also represent about 90 percent of the $345 billion in outlay growth projected over the 1983-1988 period.

SUMMARY TABLE 3. COMPOSITION OF FEDERAL OUTLAYS
(By fiscal year, in billions of dollars)

	1983 Base	1988 Projection	Change
National Defense	213	358	144
Entitlements and Other Mandatory Spending			
Social Security Benefits	168	232	64
Medicare and Medicaid	76	142	66
Other Entitlements	142	137	-5
Subtotal	386	511	125
Nondefense Discretionary Spending	145	184	39
Net Interest	87	134	47
Offsetting Receipts	-32	-41	-9
Total	800	1,145	345

SUMMARY TABLE 4. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS
(By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Baseline Revenues						
High-growth alternative	615	676	742	798	862	933
CBO baseline projection	606	653	715	768	822	878
Low-growth alternative	599	636	686	730	777	825
Baseline Outlays						
High-growth alternative	793	830	904	971	1,041	1,116
CBO baseline projection	800	850	929	999	1,072	1,145
Low-growth alternative	804	868	958	1,032	1,110	1,187
Baseline Unified Budget Deficit						
High-growth alternative	178	155	162	172	179	183
CBO baseline projection	194	197	214	231	250	267
Low-growth alternative	205	232	272	302	333	363

National defense spending is the largest component of the projected growth in outlays. Defense programs are projected to grow by $144 billion during the next five years under CBO's extrapolation of the targets adopted for 1984 and 1985 in the 1983 budget resolution. The second largest outlay growth component is entitlements and other mandatory spending. Within this category, all of the projected growth is for Social Security, Medicare, and Medicaid, which will together increase by $130 billion. Net interest costs are projected to grow by $47 billion between 1983 and 1988, largely as a consequence of the projected growing deficits under baseline assumptions. Nondefense discretionary spending is projected to grow by only $39 billion; this increase is attributable to discretionary inflation adjustments, pay raises for civilian agency employees, and growth in transportation programs already provided in law.

Alternative Economic Growth Paths

The outlook for the budget deficit under current policies varies under alternative economic assumptions. Even under the high-growth alternative, in which unemployment declines to 6 percent by 1988, the deficit remains virtually flat. As shown in Summary Table 4, the budget deficit under a more rapid economic recovery would decline to $155 billion in 1984 but then rise gradually to $183 billion by 1988. Under the weak recovery path, the budget deficit climbs rapidly from $232 billion in 1984 to $363 billion in 1988.

As would be expected, future revenues would be higher if the economy recovers more rapidly than projected in the CBO baseline forecast and longer-run assumptions. Conversely, if the expected economic recovery is quite weak, federal revenue growth would be lower.

Under the high-growth alternative economic assumptions, the growth in outlays would be slightly lower over the next five years ($323 billion), largely because a more rapid decline in unemployment would reduce outlays for unemployment compensation, and because lower deficits would reduce net interest costs. Under CBO's low-growth economic path, however, the growth in outlays would be larger ($383 billion) because these same factors would operate in reverse.

SUMMARY TABLE 5. UNIFIED BUDGET AND TOTAL DEFICITS, INCLUDING OFF-BUDGET (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Baseline Unified Budget Deficit	194	197	214	231	250	267
Outlays of Off-Budget Federal Entities	17	15	16	19	17	17
Total Deficit, Including Off-Budget	210	212	231	250	267	284

OFF-BUDGET SPENDING AND FEDERAL CREDIT

The unified budget does not provide a complete picture of federal government financial activities. First, the unified budget does not include certain federal activities, such as the acquisition of oil for the strategic petroleum reserve and the loan asset purchases of the Federal Financing Bank. These off-budget outlays must be added to the unified budget deficit in order to determine the total federal deficit that must be financed. Off-budget outlays are projected to average about $17 billion per year, as shown in Summary Table 5, bringing the projected total deficit to $210 billion in 1983 and $284 billion by 1988.

Even when off-budget spending is included, however, the deficit does not fully measure the federal government's involvement in credit markets. The federal government provides credit to individuals, businesses, and other borrowers both by the direct provision of loans and by guaranteeing loans made by nonfederal lenders. Federal outlays do not reflect the total volume of new direct federal loans but only the amount of net lending--that is, new loans less repayments. Also, federal loan guarantees are not reflected at all in the unified budget unless borrowers default.

This year for the first time, CBO has prepared bseline projections of federal credit. CBO projects that the total of federal loan obligations and guarantee commitments will grow from $136 billion in 1983 to $164 billion by 1988 under baseline assumptions (see Summary Table 6). This represents a rate of growth in federal and federally guaranteed lending of 4 percent per year, considerably less than the growth in lending during the 1970s and less than the projected growth in the economy.

SUMMARY TABLE 6. BASELINE CREDIT PROJECTIONS
(By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Direct Loan Obligations	49	49	49	47	50	52
Primary Loan Guarantees	87	90	95	101	106	112
Total	136	139	144	148	156	164

CHAPTER I. INTRODUCTION

This report presents projections made by the Congressional Budget Office (CBO) of federal revenues, budget authority, outlays, and credit activities for fiscal years 1984 through 1988. The projections take as their starting point taxing, spending, and lending policies for fiscal year 1983, as in effect at the end of the second session of the 97th Congress, and show what would happen if those policies were to continue unchanged for the following five fiscal years. The projections therefore do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They are, however, a baseline or benchmark against which proposed policy changes may be measured and assessed.

Sometimes it is hard to determine what constitutes current government budgetary policies and how they should be projected into the future. Always it is difficult to predict the path of the economy and how it will affect the budget. Various assumptions can be made, and for each possible set of assumptions there will be a different baseline. Assumptions about the nature of current policies and the future of the economy must nevertheless be made if any realistic budget planning is to be done. The report clearly identifies the crucial assumptions and indicates, where appropriate, how an alternative choice would have affected the results.

THE BASELINE CONCEPT

Baseline budget projections are designed to show what would happen to the federal budget if current policies were to be continued into the future. This is not equivalent to assuming that there will be no new Congressional action. Without new legislation, spending programs requiring annual appropriation would quickly wither away because of the lack of funds; many other programs would disappear in later years as their authorizing legislation expired. The baseline projections assume that the Congress will take action as needed to continue the policies embodied in the current legislation, including the maintenance of real resource levels in the face of inflation.

The baseline revenue figures in this report are a projection of federal tax laws existing at the end of calendar year 1982. These tax laws are assumed to continue unchanged, and future tax changes called for under current law are generally assumed to occur as scheduled. This includes the expiration of various temporary tax provisions that have been enacted recently, such as the temporary increases in cigarette and telephone excise taxes enacted in 1982. The only exception to this rule is that airport and airway taxes are assumed to be continued beyond their 1987 expiration date, as they have been continued in the past.

The baseline concept for spending is more complex than that for revenues. Federal spending can be divided essentially into two categories. A large part of federal spending is mandated by existing law. This includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable to the baseline revenue projections. It is assumed that existing law at the close of the second session of the 97th Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in the same way that it has responded to such changes in the past.

The remainder of the federal spending budget is subject to annual review through the appropriations process. The baseline projections for these programs are generally based on fiscal year 1983 appropriation funding levels as enacted by the Congress through December 1982, with future increases to keep pace with inflation. For national defense, the baseline figures derive from the fiscal year 1983 budget resolutions, as extrapolated by CBO. Details on the baseline spending assumptions are provided in Appendix D.

This year for the first time, CBO is publishing projections of the federal credit budget--federal government loans and loan guarantees. Some direct loans and loan guarantees are subject to limits enacted in appropriations bills. The base for projecting government direct loans and loan guarantees consists of appropriation limits where enacted and CBO's estimates of obligations and commitments where programs have no appropriation limits or where program levels are below the appropriated limit. Projections of programs with appropriation limits assume credit levels that grow with inflation unless otherwise constrained by a permanent lending ceiling. Projections of programs without appropriation limits are CBO's estimates of activity for these programs, including an adjustment for inflation. For both limited and nonlimited programs, CBO's projections of credit levels are consistent with its unified and off-budget spending estimates.

THE USE OF BASELINE PROJECTIONS

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence the budget over a period of several years.

In 1982, the CBO baseline, modified somewhat to conform with economic and other assumptions agreed to by representatives of the Congress and the Administration, served as the so-called bipartisan baseline used for negotiations between the Congress and the Administration and for developing the Congressional budget resolution for fiscal year 1983. CBO budget projections also served as the baseline for computing the spending reductions and revenue increases to be achieved in the budget reconciliation process in 1981 and 1982. The reconciliation instructions contained in the First Concurrent Resolutions on the Budget for Fiscal Years 1982 and 1983 required certain Senate and House committees to reduce outlays or increase revenues by specified amounts from baseline levels, but each committee had discretion regarding how these savings were to be achieved.

CBO makes similar use of baseline budget projections in its bill cost estimates for calculating the costs or savings that would result from legislative proposals to change existing law. This is particularly important for calculating the budgetary effects of changes in entitlement programs, such as Social Security, Medicaid, veterans' pensions, and federal employee retirement.

PLAN OF THIS REPORT

Chapter II provides an overview of the baseline projections for revenues, budet authority, and outlays for 1984-1988. It begins with a discussion of the economic assumptions used for the projections and presents the baseline spending and revenue projections. The sensitivity of the budget projections to economic assumptions is demonstrated by showing how the projections would change under alternative high- and low-growth paths.

The third chapter presents detail on the baseline revenue projections, showing the revenues by major source. It also discusses the impact of the Economic Recovery Tax Act (ERTA) of 1981, the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, and other recent tax legislation.

Chapter IV provides detail on the baseline spending projections. It is organized by the spending categories used in last year's budget debate--national defense, entitlements and other mandatory spending, nondefense discretionary spending, net interest, and offsetting receipts.

The last chapter consists of baseline projections of the credit budget. Since this is a new part of the baseline projections report, the chapter begins with definitions of terms used in the credit budget. The second part of the chapter contains historical data on federal lending and baseline projections of credit by the major purposes for which it is used.

The appendixes to this report contain a distribution of the baseline spending projections by budget function, major program category, and committee jurisdiction; a translation of the projections into national income and product account terms; and a detailed description of the programmatic assumptions underlying the baseline projections.

CHAPTER II. OVERVIEW OF THE PROJECTIONS

The Congressional Budget Office estimates that in fiscal year 1983 federal government revenues will equal $606 billion, outlays $800 billion, and the unified budget deficit $194 billion, or 6.1 percent of the gross national product (GNP). If current taxing and spending policies are continued unchanged, both revenues and outlays will grow in absolute dollars but will decline as a percentage of GNP. Since revenues and outlays as a percentage of GNP will fall by similar amounts, however, the baseline deficit remains level at 5.6 percent of GNP from 1984 to 1988. In the absence of tax increases or spending reductions, the unified budget deficit will equal $197 billion in 1984, $214 billion in 1985, and $267 billion in 1988.

These baseline projections are clearly not a forecast of what will actually happen. The economy may not perform as assumed for the projections. Future budgets undoubtedly will change present taxing and spending policies to adjust to changes in the economy and in national priorities. The baseline projections show the effect on the budget of continuing current policies under the CBO economic forecast for 1983-1984 and longer-run assumptions for 1985-1988.

ECONOMIC ASSUMPTIONS

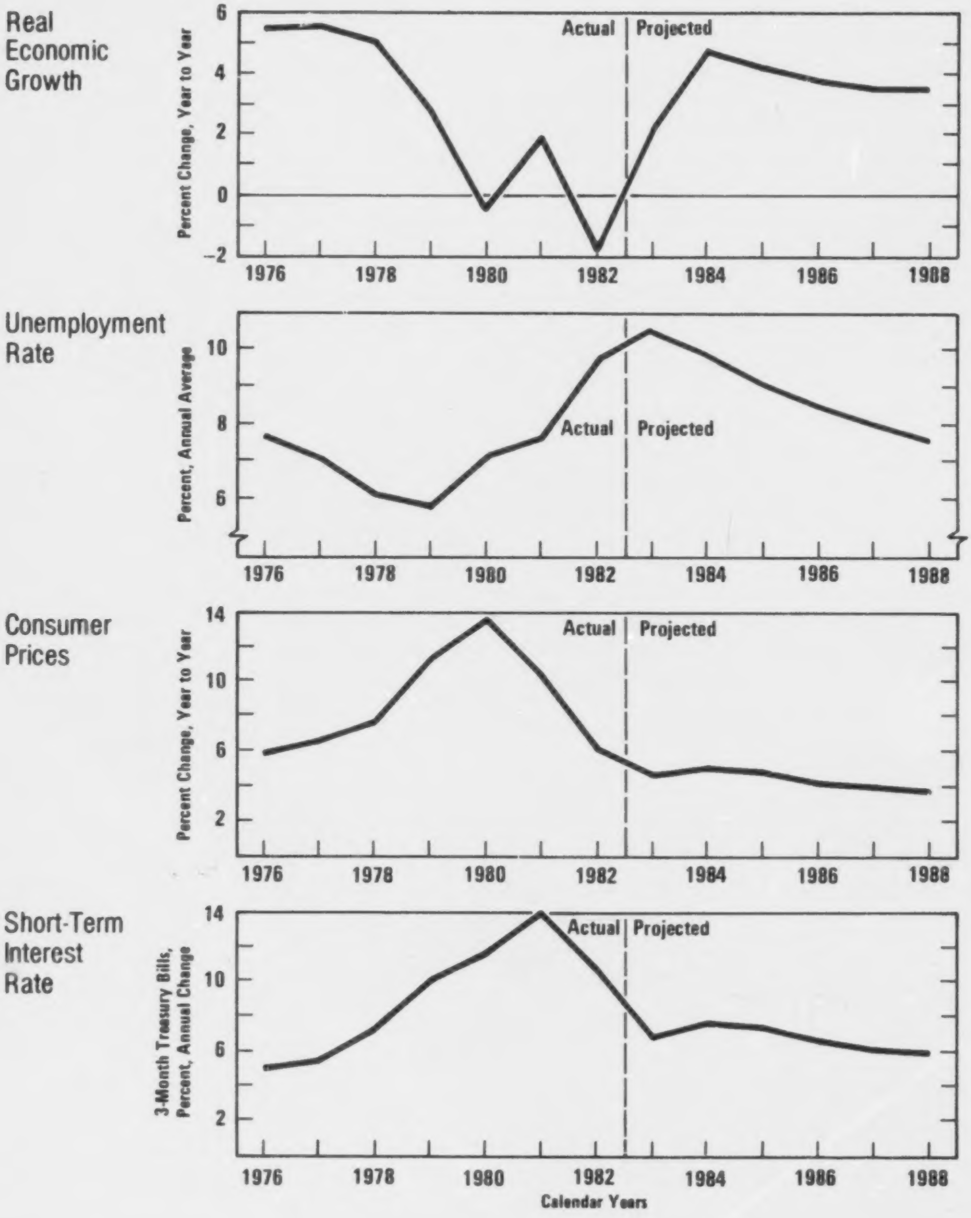
Since economic conditions have major effects on federal budget revenues and outlays, budget projections must be based on explicit assumptions about economic trends over the next several years. Tax receipts depend on taxable incomes, which reflect both real economic growth and inflation. About 30 percent of federal spending is directly indexed for inflation through automatic cost-of-living adjustments. The costs of certain benefit programs, such as unemployment insurance and food stamps, also depend on the level of unemployment in the economy. The costs of interest on the public debt depend on the level of interest rates. In the absence of major budget cuts or program increases, the remainder of the budget typically has kept pace with inflation through specific Congressional actions.

The major economic assumptions underlying the baseline budget projections are shown in Table 1 and displayed in Figure 1. These assump-

TABLE 1. BASELINE ECONOMIC ASSUMPTIONS (By calendar year, dollar amounts in billions)

	1982 Actual	Forecast		Longer-Run Assumptions			
		1983	1984	1985	1986	1987	1988
Gross National Product (GNP)							
Current dollars							
Amount	3,058	3,266	3,580	3,903	4,221	4,540	4,878
Percent change, year to year	4.1	6.8	9.6	9.0	8.1	7.6	7.4
Constant (1972) dollars							
Amount	1,476	1,506	1,577	1,642	1,703	1,762	1,824
Percent change, year to year	-1.8	2.1	4.7	4.1	3.7	3.5	3.5
Prices							
GNP deflator (percent change, year to year)	6.0	4.6	4.7	4.7	4.3	3.9	3.8
Consumer Price Index (percent change, year to year)	6.1	4.5	5.0	4.7	4.1	3.9	3.7
Unemployment Rate (percent, annual average)	9.7	10.6	9.8	9.0	8.4	8.0	7.5
Interest Rate (91-day Treasury bills, percent, annual average)	10.6	6.8	7.4	7.2	6.6	6.1	5.9

Figure 1.
Major Economic Assumptions



tions are explained in detail in a companion volume to this report; they are only summarized here. 1/

CBO projects a modest recovery from the current recession, with real growth rates of 2.1 percent in calendar years 1983 and 4.7 percent in 1984. The unemployment rate is projected to average 10.6 percent in calendar year 1983 and to decline to 9.8 percent in 1984. Inflation is expected not to increase substantially despite the recovery because of food and fuel price increases below the overall rate of inflation and because of lower wage growth owing to the high unemployment. The rate of growth in the GNP deflator, which was 6.0 percent in 1982, is projected to be 4.6 percent in 1983 and 4.7 percent in 1984.

Short-term interest rates are expected to decline somewhat from current levels and to rise slightly in 1984, as the recovery progresses. The three-month Treasury bill rate is projected to average 6.8 percent 1983 and 7.4 percent in 1984. In real terms, interest rates remain high in the forecast, providing a considerable restraint on economic growth.

While all short-run economic forecasts are subject to considerable uncertainty, the range of uncertainty is even greater for economic assumptions more than two years into the future. The economic assumptions for 1985 and beyond are therefore not a forecast but an extrapolation of the forecast for 1983 and 1984. They assume noncyclical moderate economic growth and declining inflation. It is by no means certain, however, that outyear projections are consistent with prospective monetary and fiscal policies, particularly the large federal deficits.

In the CBO long-run assumptions, growth in real GNP is 4.1 percent in 1985 and slows to 3.5 percent by 1988. Unemployment gradually declines to 7.5 percent by 1988. The growth rate of the GNP deflator slows to 3.8 percent by 1988 because of prolonged high unemployment and below-average growth in food and fuel prices. The three-month Treasury bill rate is assumed to decline to 5.9 percent by 1988.

BASELINE BUDGET PROJECTIONS

As a result of the current deep recession and the record level of unemployment, the federal budget deficit is projected to reach another postwar record in fiscal year 1983. While the 1982 deficit was an

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1. See Congressional Budget Office, The Outlook for Recovery, (February 1983).

unprecedented $111 billion, the 1983 deficit is likely to be almost twice as large--$194 billion. This figure would represent 6.1 percent of GNP, a level never before reached in the post-World War II period. The 1984 baseline deficit is projected to be $197 billion--a slight decline to 5.6 percent of GNP. In later years, the deficit grows in dollar terms and remains level as a percentage of GNP (see Table 2).

These large projected deficits will lead to a substantial increase in the federal debt. Debt held by the public will grow from $929 billion at the beginning of 1983 to $2.4 trillion at the end of 1988--an increase of over 150 percent.

TABLE 2. BASELINE BUDGET PROJECTIONS (By fiscal year)

	1982 Actual	1983 Base	Projections				
			1984	1985	1986	1987	1988
	In Billions of Dollars						
Baseline Revenues	618	606	653	715	768	822	878
Baseline Outlays	728	800	850	929	999	1,072	1,145
Baseline Unified Budget Deficit	**111**	**194**	**197**	**214**	**231**	**250**	**267**
Outlays of Off-Budget Federal Entities	17	17	15	16	19	17	17
Total Deficit, Including Off-Budget	128	210	212	231	250	267	284
	As a Percent of GNP						
Baseline Revenues	20.4	19.0	18.7	18.7	18.5	18.4	18.3
Baseline Outlays	24.0	25.0	24.3	24.3	24.1	24.0	23.9
Baseline Unified Budget Deficit	**3.6**	**6.1**	**5.6**	**5.6**	**5.6**	**5.6**	**5.6**
Outlays of Off-Budget Federal Entities	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Total Deficit, Including Off-Budget	4.2	6.6	6.1	6.0	6.0	6.0	5.9

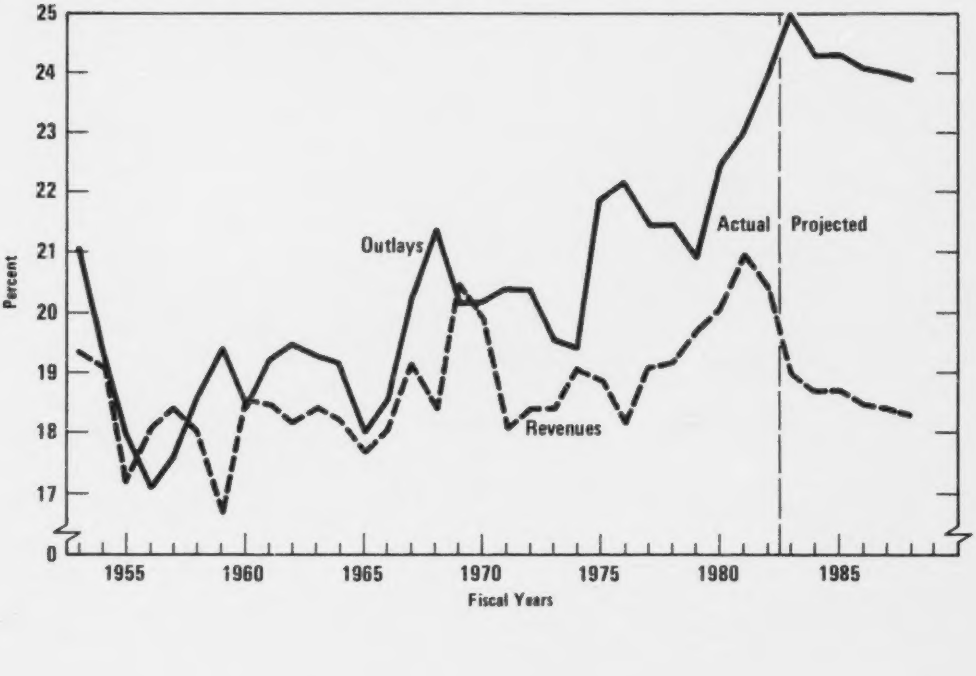
Revenues. Federal revenues in 1983 are projected to be $606 billion--$12 billion less than the 1982 amount. Because of the recession, taxable personal income will increase by only 4.4 percent, and this increase will not be sufficient to overcome the effects of the lower 1983 personal income tax rates. Corporation income taxes are also projected to fall because of the recession, despite the corporate tax increases enacted in 1982.

Baseline revenues are projected to rise from $606 billion in 1983 to $878 billion in 1988--an increase of 45 percent in five years. This represents an average growth of 7.7 percent a year, compared with an assumed average growth in nominal GNP of 8.4 percent a year. Thus, as displayed in Figure 2, baseline revenues as a proportion of GNP are projected to decline from 20.4 percent in 1982 to 18.3 percent in 1988. The decline is relatively rapid during 1983 and 1984, when staged reductions in individual income taxes take place, but slows thereafter.

Outlays. Federal outlays in 1983 are projected to reach $800 billion--an increase of $72 billion from 1982. In the later years, baseline outlays are

Figure 2.

Federal Revenues and Outlays as a Percentage of GNP



projected to increase at a slightly slower pace than revenues. Under baseline assumptions, outlays would rise from $800 billion in 1983 to $850 billion in 1984 and over $1.1 trillion by 1988. This represents an average annual growth in outlays of 7.4 percent during the projection period (1983 to 1988), or about one percentage point less than the assumed growth in GNP and 0.3 percentage point less than the projected growth in revenues. Under baseline assumptions, outlays would decline as a share of GNP--from 25.0 percent in 1983 to 23.9 percent in 1988. By 1988, however, the ratio of federal outlays to GNP would still be higher than for all postwar years before 1982.

Unified Budget Deficit. Under baseline assumptions, the unified budget deficit would equal $194 billion (6.1 percent of GNP) in 1983 and $197 billion (5.6 percent of GNP) in 1984.

The 1984 deficit would grow in dollar terms, but would remain roughly constant as a percentage of GNP. By 1988, the deficit would equal $267 billion.

Off-Budget Outlays. The spending of certain federal entities has, by law, been excluded from the unified budget totals. The outlays of these off-budget entities, however, must be added to the budget deficit to derive the total federal deficit that must be financed. Table 2 therefore shows the CBO baseline projection of the outlays of off-budget federal entities and of the total deficit.

Under baseline assumptions, the outlays of the off-budget federal entities are projected to be $17 billion in 1983 and to average the same amount in 1984-1988. Off-budget outlays will equal 0.5 percent of GNP in 1983 and 0.4 percent of GNP in later years. Taking into account off-budget outlays, the total federal deficit is projected to decline from 6.6 percent of GNP in 1983 to 6.1 percent in 1984 and 5.9 percent by 1988.

Federal Debt. At the end of fiscal year 1982, the federal debt subject to statutory limit exceeded $1.1 trillion. Of this amount, slightly over $900 million was held by the public, with the remainder being held by federal government trust and other funds.

The large baseline deficits, both on- and off-budget, would cause debt held by the public to increase by one and one-half times over the next five years. By the end of fiscal year 1988, debt held by the public would swell to $2.4 trillion (see Table 3). Total debt subject to limit, which also rises as government trust funds increase their holdings of federal securities, would reach $2.6 trillion.

TABLE 3. PROJECTIONS OF FEDERAL GOVERNMENT DEBT
(By fiscal year, dollar amounts in billions)

	1982 Actual	Projections					
		1983	1984	1985	1986	1987	1988
Debt Subject to Limit (beginning of year)	999	1,143	1,344	1,562	1,804	2,068	2,347
Increase in Debt Subject to Limit							
Unified budget deficit	111	194	197	215	231	250	267
Trust fund surplus	6	1	6	11	14	12	9
Off-budget deficit	17	17	15	16	19	17	17
Means of financing (other than borrowing) and other adjustments	11	-11	--	--	--	--	--
Total Increase	144	201	218	242	264	279	293
Debt Subject to Limit (end of year)	1,143	1,344	1,562	1,804	2,068	2,347	2,640
Debt Held by the Public (end of year) a/	929	1,128	1,340	1,571	1,820	2,087	2,372
Debt Held by the Public as a Percent of GNP b/	30.6	35.3	38.3	41.1	43.9	46.8	49.5

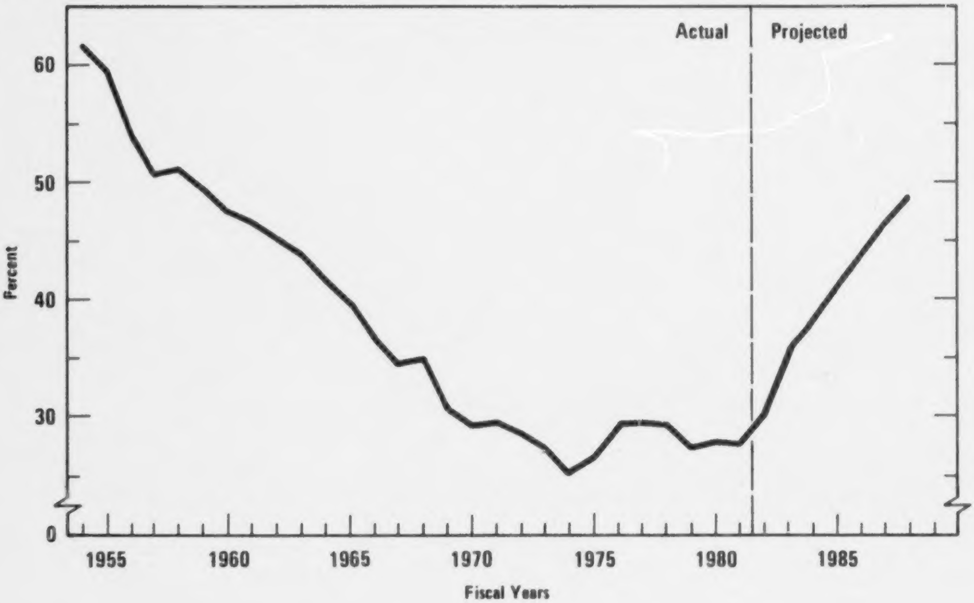
NOTE: Details may not add due to rounding.

a. Includes debt held by the Federal Reserve System.

b. Debt at the end of the year as a percentage of GNP during the year.

Debt increases of this magnitude would also reverse a long-run decline in the ratio of debt held by the public to gross national product. During the 1950s and 1960s, as illustrated in Figure 3, debt held by the public declined substantially in relation to GNP. The ratio then remained roughly level during the 1970s. Under baseline assumptions, however, debt held by the public as a percentage of GNP would, by 1988, reach a level not seen since 1960.

Figure 3.
Federal Debt Held by the Public as a Percentage of GNP



ALTERNATIVE ECONOMIC ASSUMPTIONS

As noted above, budget projections depend greatly on their underlying economic assumptions; changes in economic conditions can have major effects on revenues, outlays, and the deficit. Yet, forecasting economic conditions is subject to great uncertainty. Consequently, this section examines how the baseline budget figures would vary under alternative economic assumptions.

Although the economic assumptions underlying the baseline are those that CBO believes to be most likely, there is a good chance that the economy will perform differently than assumed. To illustrate the possibilities, CBO has prepared two alternative sets of economic assumptions, detailed in Table 4.

The first alternative is a high-growth path, with lower interest rates, lower unemployment, and slightly higher inflation. Real GNP grows at approximately the rate of a normal post-World War II cyclical recovery in the first three years. Thereafter, real growth continues at 4 percent annually. Inflation, as measured by the GNP deflator, averages 4.9 percent a year from 1983 to 1988, and the unemployment rate drops to 6.0 percent by the end of the period.

In the low-growth path, on the other hand, interest rates and unemployment are assumed to be higher and inflation is lower. The growth rate in real GNP is 0.8 percent in 1983 and averages 3.2 percent a year over the 1984-1988 period. Inflation averages 4 percent, and unemployment drops to 9 percent by 1988.

The revenues, outlays, and deficits resulting from these alternative economic assumptions are summarized in Table 5. As would be expected, revenues are higher in the high-growth case and lower in the low-growth case than they are in the baseline. These differences result primarily from differences in assumed rates of real growth, since the ratio of revenues to GNP varies little across the three alternatives. The slight differences among the ratios of revenues to GNP under the different growth assumptions result from complex interactions between changing income shares (corporate income tends to become a larger portion of GNP when growth rates are higher) and changing effective tax rates. The current tax system, with its emphasis on accelerated depreciation, leads to lower effective tax rates on business income when economic growth and investment are higher.

Conversely, outlays in the high-growth alternative are lower than those in the baseline both in dollar terms and as a percentage of GNP. Lower unemployment reduces outlays for unemployment compensation and shrinks the number of low-income persons eligible for Medicaid, food stamps, and assistance payments. Net interest outlays are also lower, both because of lower interest rates--and the lower deficits (resulting from the other changes in revenues and outlays) that must be financed. The higher inflation assumption tends to increase outlays, but this effect is more than offset by the impacts of lower unemployment and interest rates. All of these factors operate in reverse in causing outlays in the low-growth alternative to be higher than in the baseline.

TABLE 4. ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
High-growth alternative	9.0	11.3	9.5	9.1	8.9	8.1
CBO baseline projection	6.8	9.6	9.0	8.1	7.6	7.4
Low-growth alternative	5.4	7.9	7.9	7.2	6.6	6.4
Constant (1972) dollars (percent change, year to year)						
High-growth alternative	4.0	6.0	4.2	4.0	4.0	4.0
CBO baseline projection	2.1	4.7	4.1	3.7	3.5	3.5
Low-growth alternative	0.8	3.3	3.3	3.2	3.0	3.0
Prices						
GNP deflator (percent change, year to year)						
High-growth alternative	4.8	4.9	5.1	4.9	4.8	4.9
CBO baseline projection	4.6	4.7	4.7	4.3	3.9	3.8
Low-growth alternative	4.5	4.4	4.4	3.9	3.5	3.2
Consumer Price Index (percent change, year to year)						
High-growth alternative	4.6	5.3	5.0	4.6	4.6	4.8
CBO baseline projection	4.5	5.0	4.6	4.1	3.9	3.7
Low-growth alternative	4.5	4.9	4.4	3.8	3.4	3.2
Unemployment Rate (percent, annual average)						
High-growth alternative	9.9	8.5	7.7	7.0	6.4	6.0
CBO baseline projection	10.6	9.8	9.0	8.4	8.0	7.5
Low-growth alternative	11.2	10.9	10.3	9.8	9.4	9.0
Interest Rate (91-day Treasury bills, percent, annual average)						
High-growth alternative	4.4	5.4	5.7	5.0	5.0	4.9
CBO baseline projection	6.8	7.4	7.2	6.6	6.1	5.9
Low-growth alternative	8.4	9.9	8.9	7.7	7.2	6.3

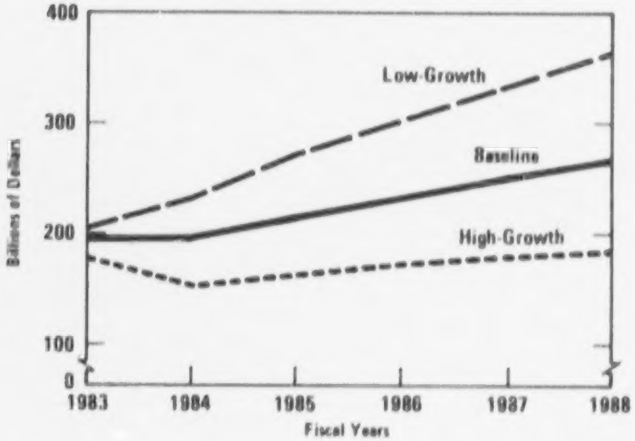
TABLE 5. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year)

	1983	1984	1985	1986	1987	1988
In Billions of Dollars						
Baseline Revenues						
High-growth alternative	615	676	742	798	862	933
CBO baseline projection	606	653	715	768	822	878
Low-growth alternative	599	636	686	730	777	825
Baseline Outlays						
High-growth alternative	793	830	904	971	1,041	1,116
CBO baseline projection	800	850	929	999	1,072	1,145
Low-growth alternative	804	868	958	1,032	1,110	1,187
Baseline Unified Budget Deficit						
High-growth alternative	178	155	162	172	179	183
CBO baseline projection	194	197	214	231	250	267
Low-growth alternative	205	232	272	302	333	363
As a Percent of GNP						
Baseline Revenues						
High-growth alternative	19.0	18.7	18.7	18.4	18.3	18.1
CBO baseline projection	19.0	18.7	18.7	18.5	18.4	18.3
Low-growth alternative	18.9	18.7	18.6	18.5	18.4	18.4
Baseline Outlays						
High-growth alternative	24.4	23.0	22.8	22.4	22.1	21.7
CBO baseline projection	25.0	24.3	24.3	24.1	24.0	23.9
Low-growth alternative	25.3	25.5	26.0	26.1	26.3	26.5
Baseline Unified Budget Deficit						
High-growth alternative	5.5	4.3	4.1	4.0	3.8	3.6
CBO baseline projection	6.1	5.6	5.6	5.6	5.6	5.6
Low-growth alternative	6.5	6.8	7.4	7.6	7.9	8.1

Under the low-growth baseline, the deficit would rise even more sharply than in the baseline case. It would reach $363 billion by 1988 and would represent 8.1 percent of GNP (see Figure 4). Under the high-growth alternative, on the other hand, the deficit would be relatively flat. It would decline a bit from 1983 to 1984, and would increase modestly thereafter. By 1988, the deficit would be within $5 billion of its 1983 amount, although it would have declined from 5.5 percent to 3.6 percent of GNP. Even with the assumption of a normally strong economic recovery, therefore, the federal budget would still show large deficits for the next several years.

Figure 4.

Federal Deficit Under Alternative Economic Assumptions



COMPARISON OF 1983 AND 1981 BASELINE PROJECTIONS

The 1983 baseline projections differ significantly from the baseline projections produced two years ago. The baseline projections used for the first budget resolution for fiscal year 1982 showed a unified budget deficit of $30 billion in 1982 and growing budget surpluses in 1983-1986. 1/ The actual 1982 deficit was $111 billion, and the latest baseline projections show large budget deficits for 1983-1986. Table 6 compares the two sets of baseline projections and summarizes the basic reasons for the remarkable change in budget outlook.

TABLE 6. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE DEFICIT PROJECTIONS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986
July 1981 Baseline Surplus or Deficit (-)	-30	28	76	138	209
Differences Due to					
Changed economic outlook	-71	-152	-173	-196	-230
Legislative actions	3	-34	-74	-128	-186
Technical estimating changes	-12	-26	-27	-28	-24
Total Differences	-80	-212	-274	-353	-440
February 1983 Baseline Deficit	-111	-194	-197	-214	-231

In each year from 1982 to 1986, the difference between two baseline paths results primarily from a changed economic outlook. Over the entire five-year period, 60 percent of the change in outlook from budget surpluses to budget deficits can be attributed to the failure of the economy to perform as projected two years ago. The economic assumptions of the July 1981 baseline were those used for the conference agreement on the first budget resolution for fiscal year 1982. They also corresponded closely to the economic projections assumed by the Administration for its fiscal year 1982 budget revisions that were submitted to the Congress in March 1981.

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1. Congressional Budget Office, Baseline Budget Projections: Fiscal Years 1982-1986 (July 1981).

Those assumptions, which are laid out in Table 7, reflected the view of the Administration and the budget resolution conferees that the fiscal and monetary restraint in the President's economic program, together with a general lowering of inflationary expectations, would lead to a steady reduction in inflation and interest rates in an environment of substantial real economic growth. The assumptions did not foresee the recession that developed in 1981 or the low rates of real economic growth that are now anticipated for the next several years. The assumptions also incorporated higher rates of inflation than the current CBO forecast envisions, as shown in Table 7.

TABLE 7. COMPARISON OF JULY 1981 AND FEBRUARY 1983 BASELINE ECONOMIC ASSUMPTIONS (By calendar year)

	1981	1982	1983	1984	1985	1986
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
July 1981 Baseline	12.0	13.0	12.4	10.8	9.8	9.3
February 1983 Baseline a/	11.6	4.1	6.8	9.6	9.0	8.1
Constant (1972) dollars (percent change, year to year)						
July 1981 Baseline	2.0	4.1	5.0	4.5	4.2	4.2
February 1983 Baseline a/	1.9	-1.8	2.1	4.7	4.1	3.7
Prices						
GNP deflator (percent change, year to year)						
July 1981 Baseline	9.7	8.6	7.0	6.0	5.4	4.9
February 1983 Baseline a/	9.4	6.0	4.6	4.7	4.7	4.3
Consumer Price Index (percent change, year to year)						
July 1981 Baseline	11.0	8.3	6.2	5.5	4.7	4.2
February 1983 Baseline a/	10.3	6.1	4.5	5.0	4.6	4.1
Unemployment Rate (percent, annual average)						
July 1981 Baseline	7.5	7.2	6.6	6.4	5.9	5.6
February 1983 Baseline a/	7.6	9.7	10.6	9.8	9.0	8.4
Interest Rate (91-day Treasury bills, percent, annual average)						
July 1981 Baseline	13.5	10.5	9.4	8.2	7.0	6.0
February 1983 Baseline a/	14.0	10.6	6.8	7.4	7.2	6.6

a. Figures for 1981 and 1982 are actual values.

On the outlay side of the budget, the effects of higher unemployment and lower inflation are largely offsetting. Both factors combine, however, to result in substantial revenue losses. These are discussed in more detail in Chapter III.

Legislative actions are the second largest reason for differences between the two baselines, accounting for about 30 percent of the change over the five-year period. The legislative differences can be subdivided into four categories, which are displayed in Table 8. First, changes in the tax law have resulted in net revenue reductions growing from $38 billion in 1982 to $154 billion by 1986. As detailed in Chapter III, these changes include both the tax cuts provided by the Economic Recovery Tax Act of 1981 and the tax increases contained in the Tax Equity and Fiscal Responsibility Act of 1982.

TABLE 8. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE DEFICIT PROJECTIONS ATTRIBUTABLE TO LEGISLATIVE ACTION (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986
Tax Reductions	38	63	93	121	154
Defense Spending Increases	1	15	27	47	65
Nondefense Spending Cuts	-42	-47	-56	-59	-61
Effect of Legislative Actions on Interest Costs	*	3	10	19	28
Total Legislative Actions	-3	34	74	128	186

Defense spending increases added $1 billion to baseline outlays in 1982 and $15 billion in 1983 and are projected to increase 1986 spending by $65 billion. Nondefense spending cuts reduced 1982 baseline outlays by $42 billion, with the savings projected to grow to $61 billion by 1986. By 1986, the defense and nondefense policy changes roughly offset each other, although the nondefense reductions are greater than the defense increases in the earlier years. Since the net effect of these legislative changes is to increase the deficit in 1983 and thereafter, interest costs also rise because of the higher deficits that must be financed.

The final source of differences between the July 1981 and the February 1983 projections is technical estimating changes. These consist primarily of unexpectedly higher outlays for farm price supports and Medicare benefits and lower receipts from offshore oil leases. They account for less than 10 percent of the differences between the two sets of projections.

CHAPTER III. BASELINE REVENUE PROJECTIONS

Federal revenues under current law are projected to be $606 billion in 1983, $12 billion below the amount collected in 1982. This is the first time since 1971 that there has actually been a decrease in revenues. This decrease--attributable to the combined effects of the current recession and the major tax cuts enacted in 1981--lowers the starting point for the 1984-1988 baseline revenue projections.

Baseline revenues are projected to resume their growth as the economy recovers, rising to $653 billion in 1984 and reaching $878 billion by 1988 (see Table 9). As a percentage of gross national product, however, revenues are projected to decline slightly, from 18.7 percent in 1984 to 18.3 percent in 1988. This is well below the post-World War II high of 20.9 percent of GNP reached in 1981, and returns revenues as a percentage of GNP to approximately the levels that prevailed in the 1960s and 1970s. The major reason for this drop over the projection period from the 1981 high is the large tax reductions enacted in the Economic Recovery Tax Act of 1981 (ERTA), reductions that were only partly offset by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Without ERTA and TEFRA, revenues during the 1980s would have moved well above the all-time record of 21.9 percent of GNP reached in 1944.

The recession has also had a major effect on projected revenues. This can be illustrated by comparing CBO's current baseline revenue projections with those made in July 1981, just before the onset of the recession. If revenues under the tax law now in effect are projected using the optimistic economic assumptions adopted in July 1981 by the conferees on the first budget resolution for fiscal year 1982, revenues for the 1983 through 1986 period would be over $700 billion higher than they are now projected to be.

DEFINITION OF BASELINE REVENUES

Baseline revenues are revenues generated under existing tax law. There is one exception to this rule: airport and airway trust fund taxes are assumed to be extended at current rates beyond the present expiration date of December 31, 1987. These airport and airway taxes increase revenues in fiscal year 1988 by a net of $2.6 billion.

TABLE 9. BASELINE REVENUE PROJECTIONS BY SOURCE
(By fiscal year, in billions of dollars)

	1982 Actual	1983 Base	Projections				
			1984	1985	1986	1987	1988
Individual Income Taxes	298	286	295	321	346	372	400
Corporate Income Taxes	49	40	56	65	74	83	88
Social Insurance Taxes	201	212	232	258	283	303	326
Excise Taxes							
Windfall profit taxes	19	14	13	12	10	9	9
Other	17	23	28	30	26	26	27
Estate and Gift Taxes	8	6	6	6	5	5	4
Customs Duties	9	9	10	10	10	11	11
Miscellaneous Receipts							
Federal Reserve payments	15	14	12	13	12	12	12
Other	1	1	1	1	1	1	1
Total Baseline Revenues	618	606	653	715	768	822	878

All other provisions of existing tax law that are scheduled to expire during the projection period are assumed to expire on schedule. These provisions include some of the energy tax credit provisions enacted in the Energy Tax Act of 1978 and the Crude Oil Windfall Profit Tax Act of 1980, and the temporary increases in cigarette and telephone excise taxes enacted in TEFRA, among others. A compilation of the tax provisions with expiration dates during the projection period is provided in Appendix E.

Provisions that are scheduled to expire during the projection period have a relatively small net effect on the projections. The scheduled expiration of a number of revenue-raising provisions reduces projected 1988 revenues by about $4 billion, but this is more than offset by the scheduled expiration of a large number of revenue-losing provisions, which raises 1988 revenues by about $17 billion, resulting in a net increase in 1988 revenues of about $13 billion. The following sections describe how the tax structure has changed since 1960 and how it is projected to change in 1983-1988.

THE CHANGING FEDERAL TAX STRUCTURE

As mentioned above, revenues in fiscal year 1983 are estimated to be $12 billion below revenues collected in 1982 (Table 9). The principal factors accounting for the reduction in 1983 revenues below the 1982 level are the third round of the across-the-board individual income tax rate reductions in combination with the depressed levels of personal income growth and drastically reduced profits brought on by the recession, and the significant decrease in windfall profit tax revenues in 1983 attributable, for the most part, to the drop in oil prices. Growth in revenues is expected to resume in the 1984-1988 period but at rates slightly below the expected growth of the economy as a whole. Hence, federal revenues as a percentage of GNP will continue to decline.

Total federal revenues as a percentage of GNP rose from an average of 18.6 percent in the 1960s to 18.9 percent in the 1970s, with a steady decline in corporate income taxes being more than offset by a sharp increase in social insurance taxes and a modest increase in individual income taxes. Revenues as a percentage of GNP moved up significantly in the late 1970s and early 1980s, however, reaching 20.9 percent of GNP in 1981. Individual income taxes, which averaged 8.2 percent of GNP in the 1960s and 8.6 percent in the 1970s, reached 10.0 percent in 1981, matching the previous high set in 1944. Social insurance taxes as a percentage of GNP increased sharply from an average of 3.6 percent in the 1960s to 5.3 percent in the 1970s and 6.4 percent in 1981. Corporate income taxes, by contrast, fell from 4 percent of GNP in the 1960s to just under 3 percent in the 1970s and to 2.1 percent in 1981 (see Table 10).

Individual income taxes rose as a percentage of GNP in the late 1970s and early 1980s because legislated reductions in income taxes did not fully offset the increases that resulted as inflation pushed taxpayers into higher tax brackets (so-called "bracket creep"). Social insurance taxes as a share of GNP rose mainly because of the large Social Security payroll tax increases enacted in 1977 to fund projected increases in Social Security benefit payments. Corporate income taxes as a percentage of GNP fell over the period partly because of a steady decline in corporate profits as a share of GNP, but also because of a series of legislated reductions in corporate income taxes, most of which took the form of invesment tax credits, increases in depreciation allowances, and other special exclusions, deductions, and credits. The top corporate tax rate was also reduced from 48 percent to 46 percent in 1978.

TABLE 10. FEDERAL REVENUES BY SOURCE, AS A PERCENTAGE OF GNP AND OF TOTAL REVENUES, 1980-1988 (By fiscal year)

Revenue Source By Type of Tax	Actual				Baseline Projection				
	1980	1981	1982	1983	1984	1985	1986	1987	1988
As a Percentage of GNP									
Individual Income	9.5	10.0	9.8	8.9	8.4	8.4	8.3	8.3	8.3
Corporate Income	2.5	2.1	1.6	1.3	1.6	1.7	1.8	1.9	1.8
Social Insurance	6.1	6.4	6.6	6.6	6.6	6.8	6.8	6.8	6.8
Excise	0.9	1.4	1.2	1.2	1.2	1.1	0.9	0.8	0.7
Estate and Gift	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Other	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.5
Total	20.1	20.9	20.4	19.0	18.7	18.7	18.5	18.4	18.3
As a Percentage of Total Revenues									
Individual Income	47.2	47.7	48.3	47.2	45.1	44.9	45.0	45.2	45.6
Corporate Income	12.5	10.2	8.0	6.6	8.5	9.1	9.6	10.1	10.0
Social Insurance	30.5	30.5	32.6	35.0	35.5	36.1	36.9	36.9	37.1
Excise	4.7	6.8	5.9	6.2	6.4	5.8	4.7	4.3	4.1
Estate and Gift	1.2	1.1	1.3	1.0	0.9	0.8	0.7	0.6	0.5
Other	3.9	3.7	4.0	4.0	3.5	3.3	3.1	2.9	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Effects of ERTA and TEFRA

The Economic Recovery Tax Act of 1981 reversed the upward trend of individual income taxes as a share of GNP, and further accelerated the downward trend in corporate income taxes as a share of GNP (see Table 11). ERTA is projected to reduce individual income taxes below what they would otherwise be by 3.0 percent of GNP in 1984 and by 4.5 percent in 1988. Corporate income taxes are projected to be reduced by 0.7 percent of GNP in 1984 and 0.9 percent in 1988. The ERTA tax reductions taken together are projected to reduce total revenues by 3.9 percent of GNP in 1984 and 5.6 percent in 1988.

TABLE 11. REVENUE EFFECTS OF THE ECONOMIC RECOVERY TAX ACT OF 1981
(By fiscal year)

	1982	1983	Projections				
	Actual	Base	1984	1985	1986	1987	1988
			In Billions of Dollars				
Individual Income Taxes	-29	-68	-105	-126	-155	-182	-213
Corporate Income Taxes	-9	-17	-26	-34	-42	-45	-43
Social Insurance Taxes	a/	a/	a/	a/	a/	a/	a/
Excise Taxes							
Windfall profit taxes	-1	-1	-1	-1	-1	-1	-1
Other	---	1	1	a/	---	---	---
Estate and Gift Taxes	a/	-2	-4	-5	-6	-8	-10
Total	-38	-88	-135	-167	-205	-236	-267
			As a Percentage of GNP				
Individual Income Taxes	-1.0	-2.1	-3.0	-3.3	-3.7	-4.1	-4.5
Corporate Income Taxes	-0.3	-0.5	-0.7	-0.9	-1.0	-1.0	-0.9
Other	b/	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Total	-1.3	-2.6	-3.9	-4.4	-5.0	-5.3	-5.6

a. Less than $500 million.

b. Less than 0.05 percent.

The Tax Equity and Fiscal Responsibility Act of 1982 tax increases partly offset the revenue effects of ERTA by offsetting almost two-thirds of the ERTA corporate income tax reductions and about 10 percent of the ERTA individual income tax reductions. As shown in Table 12, TEFRA is projected to increase total revenues over what they would otherwise be by 1.1 percent of GNP in 1984 and 1.2 percent in 1988.

ERTA and TEFRA taken together produce a small but continual downward trend in revenues as a percent of GNP over the projection period. The combined net revenue reduction increases from 2.8 percent of GNP in

TABLE 12. REVENUE EFFECTS OF THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982 (By fiscal year)

	1982	1983 Base	Projections 1984	1985	1986	1987	1988
			In Billions of Dollars				
Individual Income Taxes	--	5	13	12	15	18	20
Corporate Income Taxes	--	7	16	19	26	32	31
Social Insurance Taxes	--	2	3	4	3	3	2
Excise Taxes							
Windfall profit taxes	--	a/	a/	a/	a/	a/	a/
Other	--	4	5	6	2	2	2
Estate and Gift Taxes	--	--	a/	a/	a/	a/	a/
Total	--	18	38	42	47	54	56
			As a Percentage of GNP				
Individual Income Taxes	--	0.2	0.4	0.3	0.4	0.4	0.4
Corporate Income Taxes	--	0.2	0.5	0.5	0.6	0.7	0.6
Other	--	0.2	0.2	0.3	0.1	0.1	0.1
Total	--	0.6	1.1	1.1	1.1	1.2	1.2

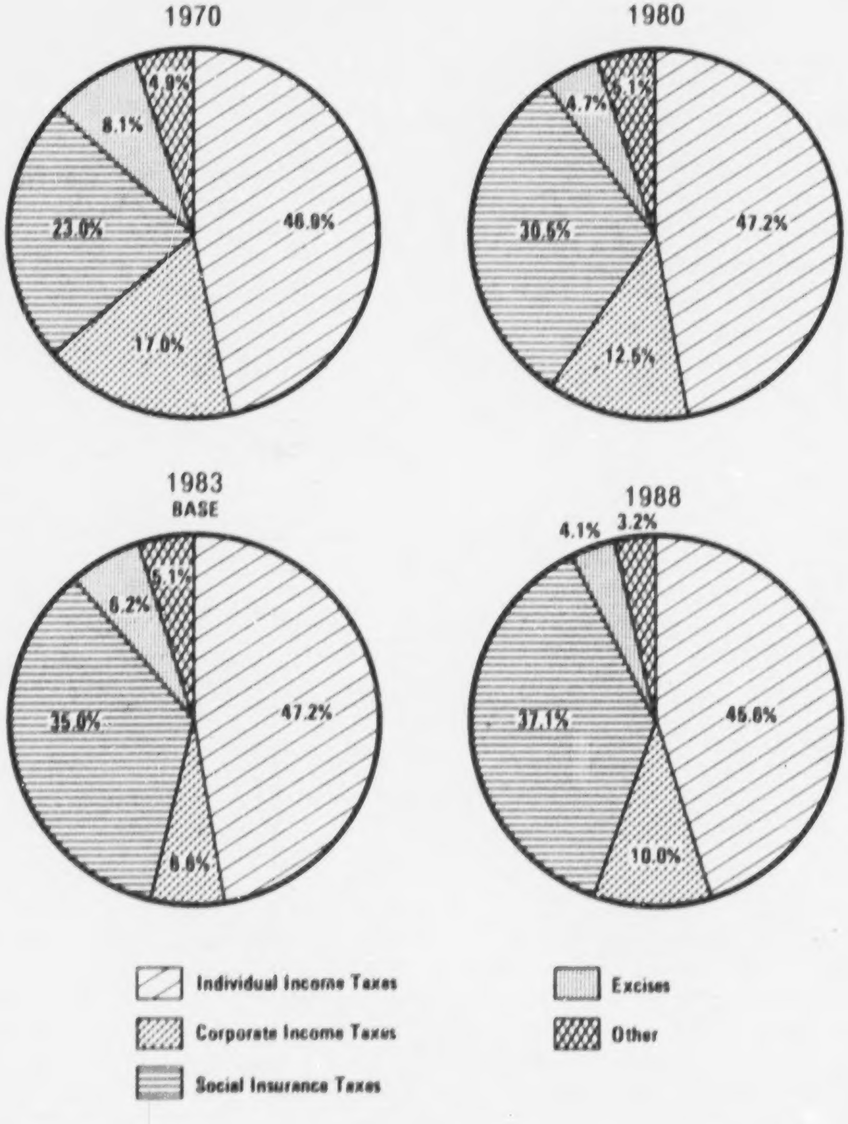
a. Less than $500 million.

1984 to 4.4 percent of GNP in 1988. This is reflected in the projection of total revenues as a share of GNP, which declines from 18.7 percent in 1984 to 18.3 percent in 1988 (see Table 10).

Shifting Role of Different Tax Sources

The shares of total revenues made up by different tax sources change over the period from 1980 to 1988, reflecting both changing economic conditions and legislative action (see Figure 5). The individual income tax share peaked in 1982 and is projected to drop substantially in 1983 and 1984 and then to remain relatively stable through 1988. The corporate income

Figure 5.
The Composition of Federal Revenues



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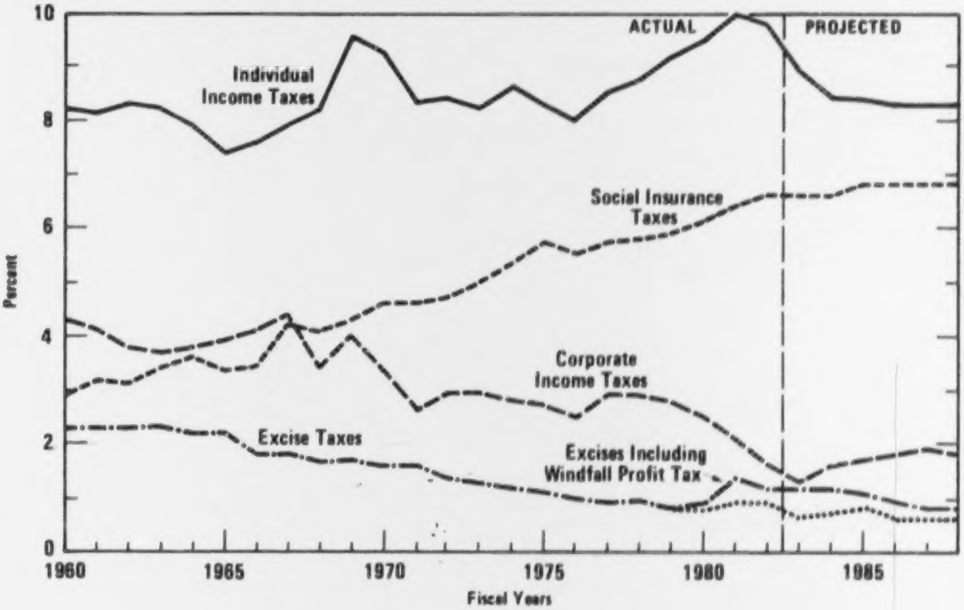
tax share reaches its lowest level in 1983 and then increases until 1987 when it levels off. The social insurance tax share continues its rise through 1986, and then remains relatively stable, while all other taxes drop off somewhat during the projection period. These patterns, and some of the reasons for them, are discussed below.

Figure 6.

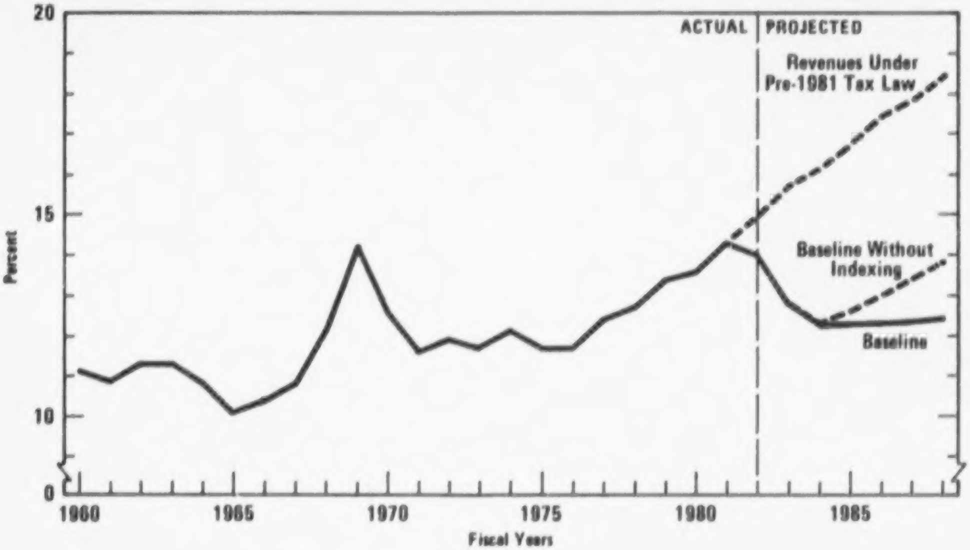
Revenue Sources as a Percentage of GNP



Individual Income Taxes. Individual income taxes are projected to decline from their post-World War II peak of 10.0 percent of GNP, reached in 1981, to a level of 8.3 percent in 1986 through 1988 (see Figure 6). This is due largely to ERTA, which cut individual income tax rates by 23 percent in three stages over the period from 1981 to 1984, and instituted indexing of the individual income tax, starting in 1985. Indexing assures that individual income taxes will increase as a share of GNP only if real (adjusted for inflation) incomes also increase as a share of GNP.

Figure 7.

Individual Income Taxes as a Percentage of Taxable Personal Income



These changes in the individual income tax burden show up more sharply when effective individual income tax rates--individual income taxes as a percentage of taxable personal income--are calculated for the period. 1/ The rate declines steadily from 14.3 percent in 1981, the highest level since 1960, to 12.3 percent in 1984 as the ERTA across-the-board rate reductions are being put in place, and remains at this level as indexing is put into effect beginning in 1985. The rate then rises slightly, to 12.4 percent in 1987 and 1988, as the movement of taxpayers into higher tax brackets caused by real income increases begins to have a measurable effect. The average rate for the 1984-1988 period, 12.3 percent, is very close to the 12.2 percent average rate for the 1970s when the increase in the effective rate due to bracket creep was partially offset by legislated tax reductions.

As shown in Figure 7, in the absence of ERTA the projected rate would have continued to rise over the period to an unprecedented 18.4 percent by 1988. Without indexing, the rate would rise from the 12.3 percent level in 1985 to almost 14 percent in 1988.

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1. Taxable personal income is defined as the sum of wages and salaries, proprietors' income, personal interest income, personal dividend income, and rental income.

Corporate Income Taxes. Corporate income taxes as a share of GNP are expected to reach a post-World War II low of 1.3 percent in 1983 before starting a gradual recovery to just under 2 percent that extends through the 1984-1988 projection period (see Table 10). This pattern reflects in part the effects of ERTA, which made major reductions in corporate income taxes by substantially increasing allowances for depreciation and the investment tax credit through a new Accelerated Cost Recovery System (ACRS). These corporate tax reductions were only partly offset the next year in TEFRA, which scaled back increases in depreciation allowances scheduled for 1985 and 1986, reduced depreciation allowances for equipment eligible for the investment tax credit, eliminated so-called "safe-harbor leasing," reduced the value of several corporate tax preferences by 15 percent, and tightened the tax treatment of certain specific categories of corporate income.

The pattern of declining corporate revenue through 1983, followed by a gradual upturn, also reflects the trend of corporate profits as a share of GNP. The corporate profit share of GNP declined fairly steadily between 1950 and 1982. It turns upward as the economy recovers during the projection period. This projected increase in corporate profits more than offsets a projected decline in the effective corporate tax rate over the 1984-1988 period, resulting in a steady increase in corporate income taxes over the period.

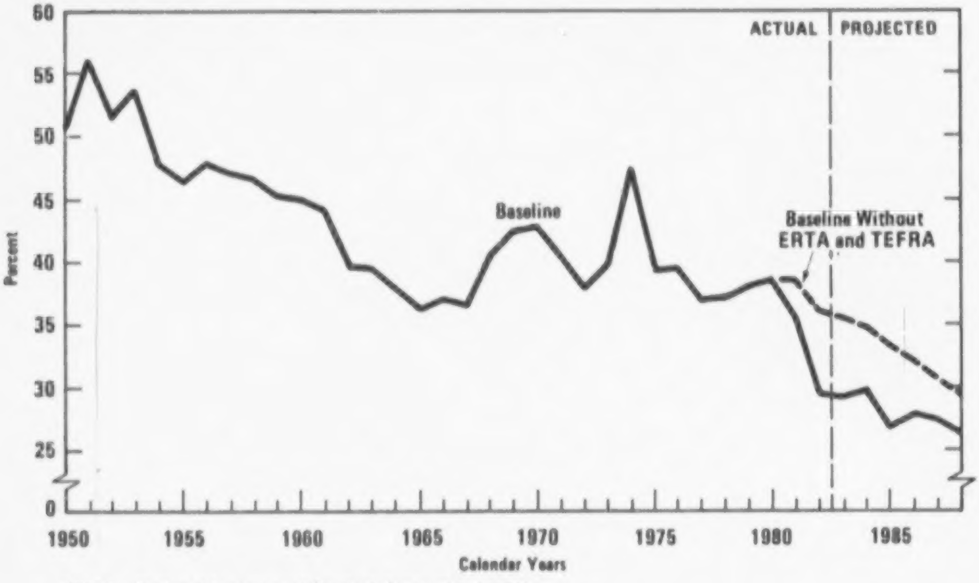
Figure 8 shows effective corporate tax rates--corporate income tax accruals (a National Income and Product Accounts measure) as a share of economic profits--from 1950 through 1988.

The effective corporate rate fell from over 50 percent to about 39 percent between 1950 and 1980, reflecting the adoption of accelerated depreciation in 1954, and the introduction of the investment tax credit in 1962 and of more accelerated methods of depreciation in 1971. The rate continues to trend down over the projection period, reaching a new low of 26.2 percent in 1988.

However, even without the substantial legislated corporate tax reductions of ERTA, the effective corporate tax rate would have steadily declined to a low of 29.3 percent in 1988. This decline would occur primarily because the moderate inflation contained in the CBO economic assumptions would mean slower growth in replacement costs of inventory and capital used in production, and thus less inflation-induced overstatement of profits. The tax reduction that results from accelerated depreciation grows both as the inflation rate declines and as the level of investment increases. For this reason, the accelerated depreciation already in the tax code before the ACRS would have reduced corporate taxes by increasing amounts throughout the forecast period, even if there had been no further legislated reductions.

Figure 8.

Corporate Income Tax as a Percentage of Economic Profits



NOTE: National Income and Product Account concepts.

Social Insurance Taxes. Social insurance taxes and contributions reflect mainly Social Security payroll taxes, which account for over 85 percent of the total. After a steady increase since 1950, social insurance taxes as a share of GNP are projected to stabilize in 1985 at 6.8 percent, more than twice the level that prevailed in the early 1960s. The recent increase in the GNP share is accounted for mainly by the major increase in Social Security taxes that was enacted in 1977. The bulk of this increase shows up in the period from 1978 to 1981, although some of the rate increases enacted in 1977 are not scheduled to take effect until 1985, 1986, and 1990. The effects of the 1985 and 1986 Social Security rate increases scheduled to go into effect during the projection period are shown in Table 13. These increases are relatively small, raising social insurance taxes and contributions as a share of GNP by only 0.2 percentage points from 1984 and 1988, and increasing social insurance as a share of total revenues by about 1.6 percentage points over the period.

TABLE 13. REVENUE INCREASES DUE TO INCREASES IN SOCIAL SECURITY TAX RATES (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988
Increase from 6.7 Percent to 7.05 Percent, Effective January 1, 1985	--	8.2	12.1	13.0	14.0
Increase from 7.05 Percent to 7.15 Percent, Effective January 1, 1986	--	--	2.5	3.6	3.9
Total Increase	--	8.2	14.6	16.6	17.9

Excise Taxes. Excise taxes are projected to be 1.2 percent of GNP in 1984--about the same level that prevailed during the 1970s--and to drop to 0.7 percent in 1988. Excise tax revenues increased somewhat as a share of GNP in 1981 because of the enactment in 1980 of the Crude Oil Windfall Profit Tax. As shown in Table 9, windfall profit tax collections accounted for more than half of all excise tax collections in 1982, but are projected to decline both in dollar amounts and as a share of the total throughout the projection period, declining to about one-fourth of all excise tax collections by 1988. The decline in windfall profit tax collections is due primarily to the projected drop in real oil prices over the 1984-1988 period.

The other major reason for the decline in excise taxes after 1985 is that taxes on cigarettes were temporarily doubled and the tax on telephone service temporarily tripled in TEFRA. This boosts excise tax collections in 1984 and 1985, but drops them in later years when the cigarette tax reverts to its earlier levels and the telephone tax expires.

Other Taxes. All other taxes account for about 0.9 percent of GNP and 4.4 percent of total revenues in 1984, declining to about 0.6 percent of GNP and 3.2 percent of total revenues in 1988. Estate and gift taxes--about 20 percent of these other taxes--fall during the projection period because of legislated reductions in ERTA. Customs duties--about a third of other taxes--remain fairly steady. Federal Reserve System payments to the Treasury--about 47 percent of other taxes--decline somewhat, reflecting mainly the lower interest rates projected for the period.

EFFECT OF RECESSION AND TAX LAW CHANGES ON REVENUE PROJECTIONS

Current CBO baseline revenue projections for the 1983 through 1986 period are about 30 percent lower than they were projected to be two years ago. For 1986, for example, the baseline revenue projections of July 1981 estimated revenues to be $1,159 billion. The current CBO estimate for 1986 revenues is $768 billion. This $391 billion drop in projected revenues results from changes in economic conditions and from new tax legislation, both of which have had significant effects on revenue estimates (see Table 14).

TABLE 14. DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 BASELINE REVENUE PROJECTIONS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986
July 1981 Baseline Revenues	709	810	920	1,033	1,159
Differences Due to					
Changed economic outlook	-49	-132	-169	-191	-231
Legislative actions					
ERTA	-38	-88	-135	-167	-205
TEFRA	--	18	38	42	47
Other	--	2	4	4	4
Subtotal	-38	-68	-93	-121	-154
Technical estimating changes a/	-4	-4	-5	-6	-6
Total Differences	-91	-204	-267	-318	-391
February 1983 Baseline Revenues	618	606	653	715	768

a. Reclassification of supplemental medical insurance premiums and voluntary enrollee premiums for Medicare coverage as offsets against outlays.

The assumptions on which the July 1981 baseline projections were based are the ones agreed upon by the conferees on the first budget resolution for fiscal year 1982. These assumptions were very optimistic about the prospects for real growth. After a pause in economic growth during the second and third quarters of 1981, it was assumed to pick up at a 4.1 percent rate in the fourth quarter of the year and to average 5.0 percent per quarter for the next two years, declining to 4.2 percent during 1984. This real growth path would have resulted in an unemployment rate of 7.0 percent in the fourth quarter of 1982, instead of the 10.7 percent actually experienced.

The July 1981 economic assumptions also incorporated higher rates of inflation (measured by the GNP deflator) than those actually experienced during the past year and a half, and higher rates for subsequent years than are assumed in the CBO February projections. These high assumed rates of real output and inflation would have generated GNP growth of 13.0 percent in 1982 instead of the 4.1 percent growth actually achieved during the year (See Table 7 in Chapter II).

If the July 1981 economic assumptions had held, tax law existing at that time would have generated very large increases in collections over the 1981 through 1986 period, pushing revenues up from 20.1 percent of GNP in 1980 to an unprecedented 23.9 percent of GNP by 1986. Most of this increase in revenues as a share of GNP would have been been caused by increases in the individual income tax share generated by the interaction between rapidly rising incomes and the progressive income tax structure. Under the 1981 economic assumptions, individual income taxes as a share of GNP would have risen from 9.5 percent in 1980 (the highest level since 1944) to 12.7 percent in 1986.

The Effects of Tax Law Changes

As described earlier, the Economic Recovery Tax Act substantially reduced the revenue stream for 1982 and subsequent years. The Tax Equity and Fiscal Responsibility Act raised revenues in 1983 and subsequent years. The net effect of tax legislation since 1981, however, has been to reduce current and projected revenues significantly below what they would have been under prior tax law (see Table 14). If ERTA and TEFRA had not been enacted, revenues for 1986 would be approximately $154 billion higher than they are now estimated to be.

The Effects of the Recession

The recession, which began in the third quarter of 1981 and was still much in evidence in the fourth quarter of 1982, caused revenue collections in 1982 to fall considerably below projected levels. Revenues for 1982, based on the July 1981 economic assumptions, were projected to be almost $50 billion higher than actual collections in 1982 (after adjustment for the ERTA reductions).

The recession has also lowered the revenue stream for the entire 1983 to 1986 period below what would have been generated under existing tax law by an economy that had not experienced such a severe economic slump. By 1986, revenues based on the July 1981 economic assumptions (after correction for new tax law changes) are well over $200 billion higher than the current CBO revenue estimate for 1986.

This significant reduction in projected revenues for 1986 is not the product of different assumptions about economic growth during the later years of the projection period. In fact, the average rate of real economic growth now assumed by CBO for the 1984-1986 period is 0.1 percentage point higher than that assumed by the budget conferees back in July 1981. This reduction in outyear revenues is the product, for the most part, of the output and income growth lost during and immediately after the current recession.

The lower rates of inflation experienced in 1982 and now assumed for the projection period (relative to the July 1981 economic assumptions) have the effect of lowering personal income growth for the entire 1982 through 1988 period and of reducing the amount of "bracket creep" assumed to take place through 1984, before indexing goes into effect. After 1984, the indexation of the individual income tax brackets, personal exemptions, and the zero bracket amount makes revenue growth much less sensitive to inflation assumptions, because bracket creep due to inflation is substantially removed from the system.

CHAPTER IV. BASELINE SPENDING PROJECTIONS

The Congressional Budget Office estimates that 1983 budget outlays will equal $800 billion. This figure represents 25.0 percent of the gross national product--a larger share of the GNP devoted to federal spending than in any year since World War II. Under the baseline assumptions, in which existing spending policies continue unchanged, federal outlays are projected to grow to $1.15 trillion, but to decline to 23.9 percent of GNP by 1988. This rate of spending is still above that for all postwar years until 1982. The rise in outlays of roughly $350 billion between 1983 and 1988 represents an increase of 43 percent, or 7.4 percent per year.

As federal outlays grow, their composition will change. The share of gross federal spending devoted to national defense and interest will rise, while the relative importance of entitlements and nondefense discretionary spending will fall. The largest component of the projected increase in outlays is for national defense programs, which are projected to grow by $144 billion between 1983 and 1988, assuming the policies of the fiscal year 1983 budget resolution (see Table 15). This is an increase of 68 percent, or 10.9 percent per year. The share of defense spending in the budget is projected to grow from 26 percent in 1983 to 30 percent in 1988, as depicted in Figure 9. This is higher than the 1980 rate of 23 percent but lower than the 1970 figure of 39 percent.

The next largest component of spending growth is for entitlements and other mandatory spending--largely benefit payments for the aged, disabled, poor, and unemployed. This type of spending is projected to grow by $125 billion, or 32 percent, over the next five years. Since entitlements are projected to grow less rapidly than total outlays, however, their share of gross spending is projected to decline slightly from 46 percent in 1983 to 43 percent in 1988.

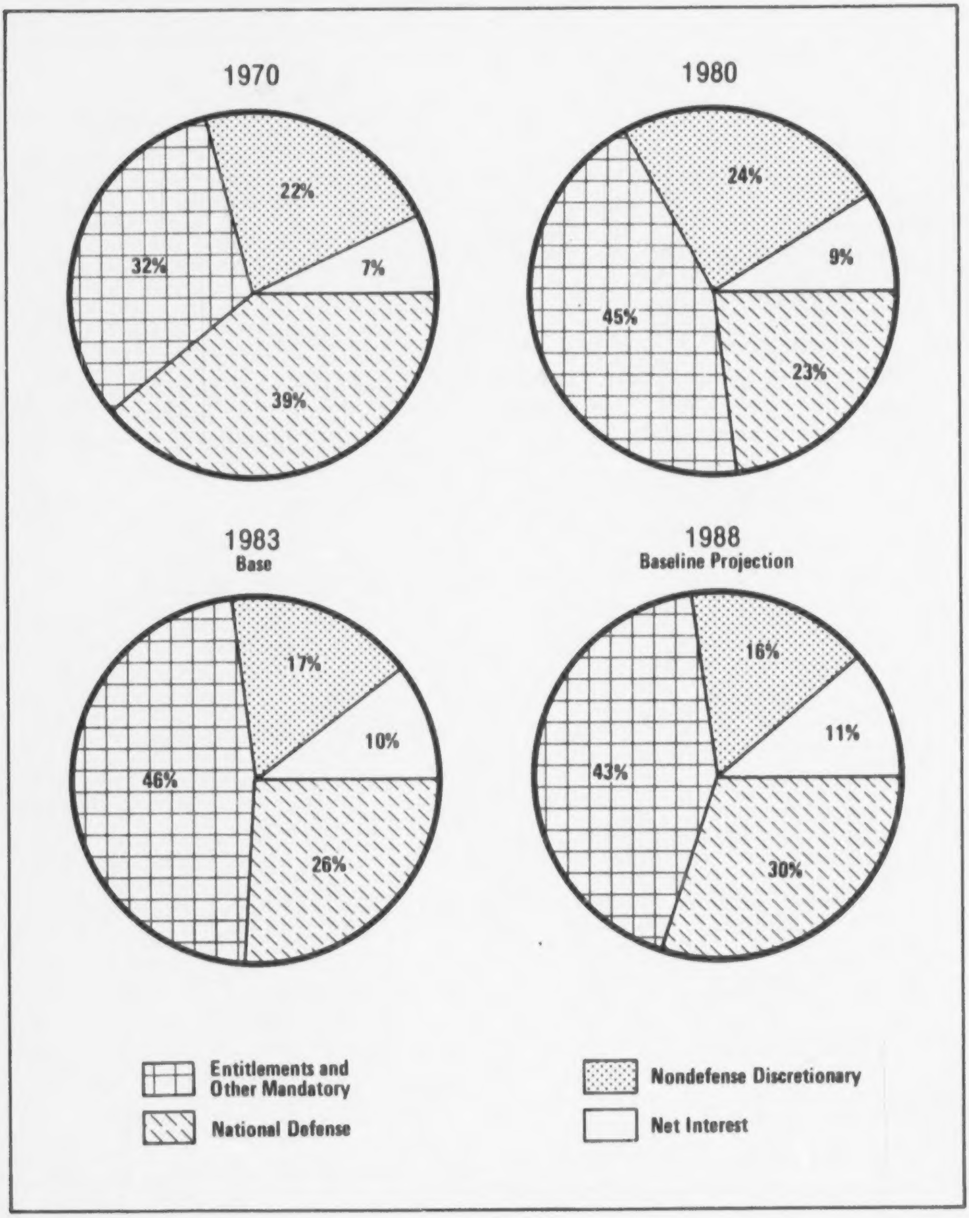
Net interest is projected to grow by 54 percent over the next five years. Because of large projected deficits, net interest outlays will increase from $87 billion to $134 billion between 1983 and 1988. The portion of gross spending devoted to interest will rise from 10 to 11 percent.

The remaining categories of spending are projected to shrink in importance over the projections period. Nondefense discretionary spending--a category that encompasses most of the day-to-day operations of the government--will increase from $145 billion to $184 billion, but its

TABLE 15. BASELINE OUTLAY PROJECTIONS FOR MAJOR SPENDING CATEGORIES (By fiscal year)

	1982 Actual	1983 Base	Projections				
			1984	1985	1986	1987	1988
In Billions of Dollars							
National Defense	187	213	242	278	310	333	358
Entitlements and Other Mandatory Spending	344	386	394	418	444	477	511
Nondefense Discretionary Spending	137	145	153	162	169	177	184
Net Interest	85	87	96	107	117	125	134
Offsetting Receipts	-25	-32	-34	-36	-41	-40	-41
Total Budget Outlays	728	800	850	929	999	1,072	1,145
Off-Budget Federal Entities	17	17	15	16	19	17	17
Total Outlays	746	816	865	946	1,018	1,089	1,163
As a Percent of GNP							
National Defense	6.2	6.7	6.9	7.3	7.5	7.5	7.5
Entitlements and Other Mandatory Spending	11.4	12.1	11.3	10.9	10.7	10.7	10.7
Nondefense Discretionary Spending	4.5	4.5	4.4	4.2	4.1	4.0	3.8
Net Interest	2.8	2.7	2.7	2.8	2.8	2.8	2.8
Offsetting Receipts	-0.8	-1.0	-1.0	-0.9	-1.0	-0.9	-0.9
Total Budget Outlays	24.0	25.0	24.3	24.3	24.1	24.0	23.9
Off-Budget Federal Entities	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Total Outlays	24.6	25.5	24.7	24.7	24.6	24.4	24.3

Figure 9.
The Composition of Gross Federal Spending



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budgetary share will fall from 17 percent to 16 percent. This would be substantially below its 1980 share of 24 percent. Offsetting receipts consist largely of government receipts from the public that are subtracted from gross spending instead of being counted as revenues; they are projected to increase from $32 to $41 billion. Off-budget outlays, which are largely for credit activities, are projected to be the same in 1988 as in 1983.

These same budgetary trends are evident in Figure 10, which shows outlays by spending category as percentages of GNP. National defense, which fell from 8.1 percent to 5.3 percent of GNP between 1970 and 1980, is projected to increase to 7.5 percent of GNP by 1988. Nondefense discretionary spending, on the other hand, which grew from 4.5 to 5.5 percent of GNP during the 1970s, will fall to 3.8 percent of GNP over the next five years.

Under baseline assumptions, 1983 will be the peak year for entitlements and other mandatory spending. This category, which equalled 6.7 percent of GNP in 1970 and 10.5 percent in 1980, is estimated to represent 12.1 percent of GNP in 1983. By 1988, however, it declines to 10.7 percent. In contrast, net interest will continue to represent a growing fraction of the nation's output.

Presented in this chapter are further details on the CBO baseline spending projections for 1984-1988. The discussion is structured in terms of the budgetary categories that were used by the Congress in preparing the 1983 budget resolution. These categories are also used to organize the forthcoming CBO report on strategies for reducing the federal deficit. 1/ The distribution of spending in terms of the major program categories used in previous baseline projections reports may be found in Appendix A.

NATIONAL DEFENSE PROGRAMS

National defense programs include not only the military activities of the Department of Defense but also the nuclear weapons programs of the Department of Energy and miscellaneous defense activities, such as defense stockpiles and selective service. The baseline totals for the national defense function are CBO's extrapolation of the fiscal year 1983 Congressional budget resolution. The baseline projections may be divided into two parts: (1) funding for an explicit defense force structure and

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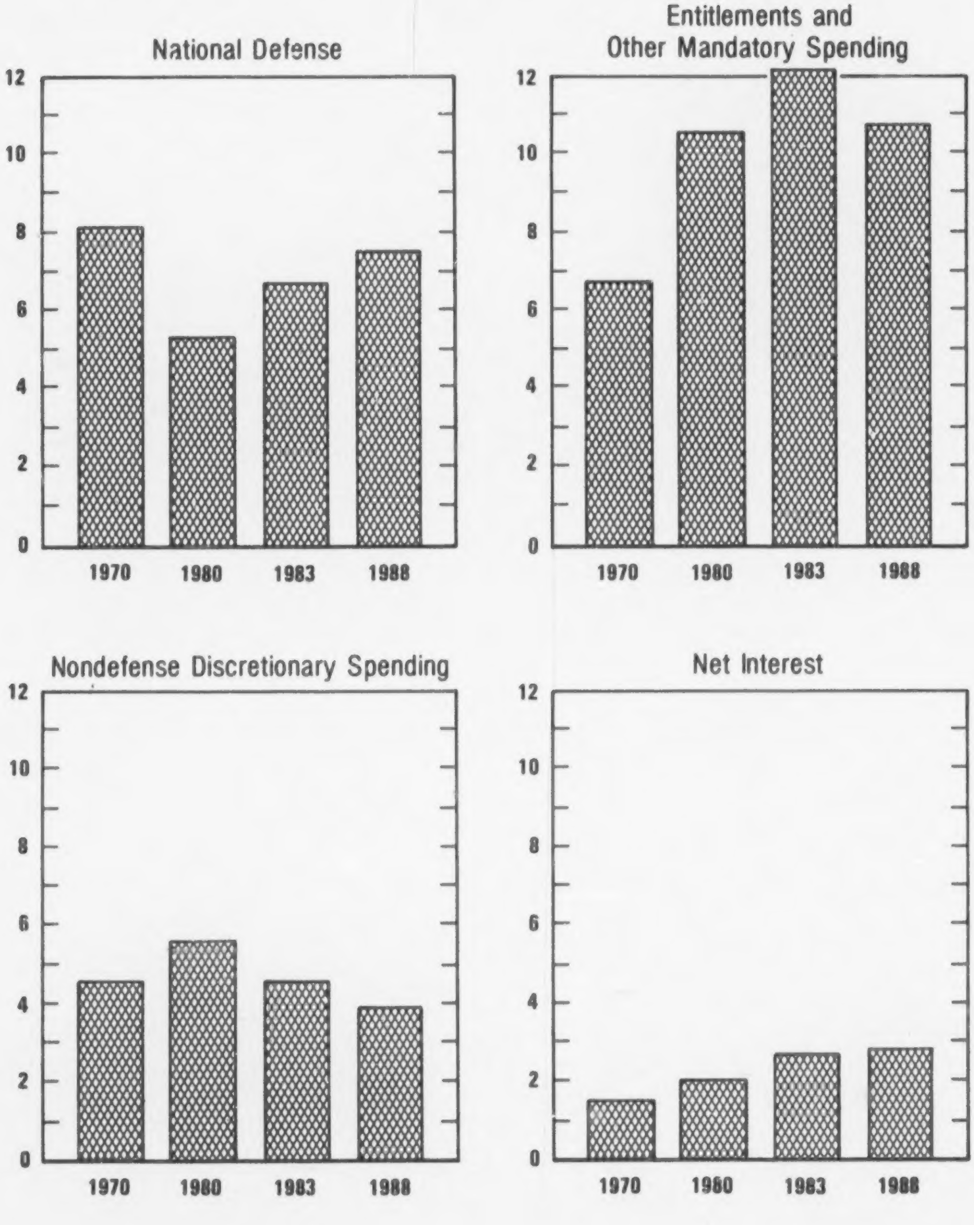
1. Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options (February, 1982).

Figure 10.
Outlay Categories as Percentages of GNP



National Defense

Entitlements and Other Mandatory Spending

Nondefense Discretionary Spending

Net Interest

procurement program that, CBO assumes, were approved during the second session of the 97th Congress; and (2) an additional funding increment to cover cost increases and other program additions not yet publicly specified.

Table 16 divides the baseline outlay projections for National Defense into its major components. The category as a whole is projected to grow by $144 billion in the next five years. About $60 billion of this is due to rising procurement outlays, about a third of which stems from inflation and two-thirds from projected modernization of strategic and tactical forces.

TABLE 16. BASELINE OUTLAY PROJECTIONS FOR NATIONAL DEFENSE (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Military Personnel	45	45	46	46	47	48
Military Retired Pay	16	17	18	19	20	21
Operation and Maintenance	64	68	70	72	75	79
Procurement	55	66	80	94	104	115
Research, Development, Test, and Evaluation	21	24	25	24	24	24
Civilian and Military Pay Raises	--	3	6	9	13	17
Other Department of Defense	7	7	8	9	10	10
Atomic Energy and Defense-Related Activities	6	6	7	7	7	8
Unspecified Increment	--	5	18	30	33	37
Total	213	242	278	310	333	358

Growth in pay and retired pay represents $22 billion of the five-year increase, and increases in operation and maintenance accounts for another $15 billion. Finally, $37 billion is accounted for by the difference between the budget resolution, as extrapolated, and the assumed force structure and investment program. This sum could provide for higher unit-readiness levels such as higher manning and training levels, expanded procurement programs to include weapons systems in the earliest stages of development, and real increases in classified programs such as nuclear weapons, intelligence, and communications activities, which the programmatic baseline holds constant in real terms.

Table 17 compares the defense baseline with three alternative defense spending paths. The first path is the Administration's latest defense request. The second path provides no real growth in budget authority for discretionary defense programs (excluding pay and retired pay). The third alternative is a program freeze, in which budget authority (including pay and retired pay) does not grow above the level approved by the Congress for 1983.

TABLE 17. ALTERNATIVE LEVELS OF DEFENSE SPENDING
(By fiscal year, in billions of dollars)

		1984	1985	1986	1987	1988
President's Request	BA	281	330	365	397	433
	O	245	285	323	354	386
CBO Baseline (Budget Resolution Extrapolated)	BA	278	322	350	373	398
	O	242	278	310	333	358
No Real Growth	BA	258	273	288	304	322
	O	234	251	267	285	303
Freeze Budget Authority at 1983 Level	BA	244	244	244	244	244
	O	228	233	236	239	242

In the President's request, defense outlays by 1988 reach $386 billion, $28 billion above the baseline level. This represents real growth of about 6.5 percent per year as compared with 4.5 percent in the baseline extrapolation of the budget resolution, and allows more growth and initiatives of the kind described above.

By contrast, if no real growth were allowed in the defense function, 1988 outlays would be only $303 billion, or $55 billion less than the baseline. Funding at these levels could require cancellation of some investment programs, rescheduling of others, and some force structure deactivation. Finally, if budget authority were held constant at the 1983 level, 1988 defense outlays would be just $242 billion. Freezing budget authority would mean a real decline in defense appropriations because of continued inflation, and would require more dramatic cancellations, rescheduling of investment programs, and force structure retirements than the no-real-growth case.

ENTITLEMENTS AND OTHER MANDATORY SPENDING

An entitlement program is one that provides benefits to any person, business, or unit of government that meets the eligibility requirements established in laws and regulations. Authorization for entitlements constitutes a binding obligation on the part of the federal government, and eligible recipients have legal recourse if the obligation is not met. In addition, other permanent appropriations and certain annually appropriated accounts are treated as mandatory even though they are not considered as entitlements by the House and Senate Budget Committees for the purposes of the Congressional Budget Act. The list of mandatory items used here is that agreed upon for the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The major items in the category are listed in Table 18.

Most entitlement programs provide benefits or services to individuals. Some programs, such as Social Security and unemployment compensation, provide cash payments to individuals to use at their discretion; other programs provide specific services used by eligible individuals (such as medical services under Medicare and Medicaid). Benefit entitlements include guaranteed student loans, railroad retirement, federal employee retirement and disability, supplemental security income, and veterans' compensation and pensions. (One entitlement program--military retired pay--is included in the national defense category.)

A few mandatory items are grant programs for state and local governments. Some of these grants are used to finance the provision of services for individuals--human services block grants, foster care, and vocational rehabilitation. One grant program, general revenue sharing, provides unrestricted fiscal assistance to counties, municipalities, and other units of local government. The farm price support program of the Commodity Credit Corporation is also considered an entitlement.

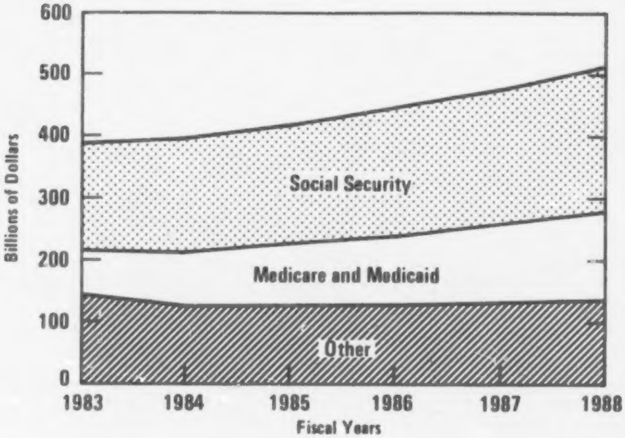
TABLE 18. BASELINE OUTLAY PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Social Security Benefits	168	180	192	204	218	232
Medicare and Medicaid	76	86	97	110	126	142
Farm Price Supports	18	9	7	4	5	5
Guaranteed Student Loans	2	3	3	3	3	3
Social Services	4	4	4	4	4	5
Unemployment Benefits	33	27	26	26	26	25
Railroad Retirement	6	6	6	6	7	7
Federal Civilian Employee Retirement and Disability	22	24	25	28	30	31
Child Nutrition	3	3	4	4	4	4
Food Stamps	12	11	12	12	13	13
Supplemental Security Income	9	7	8	8	9	10
Public Assistance	8	8	8	8	9	9
Veterans' Pensions, Compensation, and Readjustment Benefits	17	17	17	17	17	17
General Revenue Sharing	5	5	5	5	5	6
Other	5	4	4	4	3	2
Total	386	394	418	444	477	511
Memorandum:						
Military Retired Pay	16	17	18	19	20	21

Social Security, Medicare, and Medicaid represent over 60 percent of entitlement spending in 1983. They also account for virtually all of the growth in the 1983-1988 period, as shown in Figure 11. By 1988, these three programs are three-quarters of the total for all entitlements.

Spending for entitlements other than Social Security, Medicare, and Medicaid actually is lower at the end of the projections period than at the beginning. This is primarily because of a projected decline in outlays for farm price supports and unemployment benefits. Spending for these programs, however, has the potential of being higher than assumed here, if

Figure 11.
Entitlement Spending



farm prices turn out to be lower or unemployment turns out to be higher than the baseline assumes.

The projected growth in entitlement programs results primarily from price increases. Most entitlements that benefit individuals are directly or indirectly adjusted, or indexed, for inflation. Social Security benefits, railroad retirement benefits, supplemental security income, veterans' pensions, and civil service retirement benefits are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index (CPI). Benefits for certain other entitlement programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs, which are indexed to various food price indexes. As shown in Table 19, such cost-of-living adjustments account for $58 billion out of the projected $125 billion growth in entitlement spending over the next five years.

The cost of providing benefits in the Medicare and Medicaid programs, although not explicitly indexed, increases with the rising price of medical services that are provided to eligible beneficiaries. Increases in medical prices cause Medicare and Medicaid outlays to rise by $46 billion over the

TABLE 19. SOURCES OF GROWTH IN ENTITLEMENTS AND OTHER MANDATORY SPENDING PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988
Cost-of-Living Adjustments	11	23	34	46	58
Increases in Prices of Medical Services	7	14	24	35	46
Other Sources	-10	-5	*	10	21
Total Growth from 1983	8	32	58	91	125

* Less than $500 million.

1983-1988 period. Cost-of-living adjustments and medical price rises together represent over 80 percent of the total growth in entitlements.

The remaining growth in entitlement spending results from increases in the number of people eligible for Social Security, Medicare and Medicaid, and other benefit programs, and from projected increases in utilization of medical care services by Medicare and Medicaid beneficiaries. These growth factors are more than offset in the early years of the projections period, however, by the projected declines in spending for farm price supports and unemployment compensation.

NONDEFENSE DISCRETIONARY SPENDING

This category includes all appropriated accounts except those in the defense function, appropriated entitlements (such as Medicaid and assistance payments), and other mandatory appropriations (for example, payments to trust funds). In addition, this category includes a few accounts that are not in the spending jurisdiction of the Appropriations Committees but which have loan limits imposed in appropriations acts (for example, the various funds of the Farmers Home Administration).

Table 20 divides nondefense discretionary spending into seven subcategories. About 30 percent of nondefense discretionary spending consists of grants to state and local governments, the largest of which is for highways. Other major discretionary grants are for waste water treatment plants,

TABLE 20. NONDEFENSE DISCRETIONARY SPENDING
(By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Grants to State and Local Governments						
EPA construction	3	3	3	3	2	3
Federal aid to highways	8	12	13	14	15	15
Urban mass transportation	4	4	4	5	5	5
Airport grants	1	1	1	1	1	1
Community and regional development	5	5	5	5	6	6
Elementary, secondary, and vocational education	6	6	7	7	7	8
Employment and training assistance	4	4	4	4	5	5
Social services	2	2	2	2	2	2
Health grants	2	2	2	2	2	2
Operation of low income housing	1	1	2	2	2	2
WIC and food donations	1	1	1	1	1	1
Energy assistance	2	2	2	2	2	2
Other grants	5	4	4	4	4	5
Subtotal	44	47	50	52	54	56
Aid to Foreign Governments and International Organizations						
Foreign economic and financial assistance	5	5	5	5	5	6
International security assistance	4	5	5	5	5	5
International organizations	1	1	1	1	1	1
Subtotal	9	10	10	11	11	11
Federal Government Operations						
International affairs	2	2	2	2	2	2
Energy information and administration	1	1	1	1	1	1
Consumer and occupational safety and health	1	1	1	1	1	1
Administration of Social Security and Medicare	4	5	5	5	5	5
Administration of justice	5	5	5	5	5	5
General government and other	6	6	6	6	6	7
Subtotal	19	20	20	20	21	21

(Continued)

TABLE 20. CONTINUED

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Infrastructure						
Energy	1	1	1	1	1	1
Natural resources and environment	10	11	11	11	12	12
Transportation	7	7	8	8	8	8
Community and regional development	2	2	2	2	2	2
Subtotal	20	21	22	22	22	23
Assistance to Business and Commerce						
Export-Import Bank	1	2	2	2	1	1
Assistance to agriculture	2	2	2	2	2	3
Commerce and housing credit	4	3	4	4	4	4
Other	*	1	1	1	1	1
Subtotal	7	8	9	9	9	9
Research and Development						
General science, space, and technology	8	8	8	8	8	9
Energy	3	3	3	3	3	4
Health research	4	4	5	5	5	5
Other	2	2	2	2	2	2
Subtotal	17	18	18	18	19	20
Benefits and Services to Individuals						
Housing assistance	10	10	11	12	13	14
Student financial assistance	4	4	4	4	4	4
Other education and training	3	3	3	3	3	3
Health services	2	2	2	2	2	2
Veterans' medical care and other benefits	9	9	10	10	10	10
Other	1	1	1	1	1	1
Subtotal	28	28	30	32	34	35
Civilian Agency Pay Raises	1	2	3	5	7	9
Total	145	153	162	169	177	184

* Less than $500 million.

urban mass transportation, community and regional development, education, and employment and training assistance. Roughly 20 percent of the nondefense discretionary category consists of benefits and services to individuals. Of these, the two largest components are housing assistance and veterans' medical care.

Between 10 and 15 percent of the category goes to supporting the nation's infrastructure (in addition to those elements of the infrastructure financed through grants to state and local governments). This includes flood control and reclamation, conservation activities, pollution control, the air traffic control system, and the Coast Guard.

A similar amount is used to finance the basic activities of government--the conduct of foreign affairs, the administration of justice, the legislative branch, the tax collection system, and the like. Other nondefense discretionary spending provides for aid to foreign governments and international organizations, assistance to business and commerce, and various nondefense research and development programs.

There are three major sources of growth in nondefense discretionary programs, as set forth in Table 21. First is the increases assumed in the baseline to keep the non-pay portion of discretionary spending up to date with inflation. These discretionary inflation adjustments amount to $21 billion by 1988, or more than half of the total growth.

TABLE 21. SOURCES OF GROWTH IN NONDEFENSE DISCRETIONARY SPENDING PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988
Discretionary Inflation Adjustments	2	6	11	16	21
Civilian Agency Pay Raises	2	3	5	7	9
Increases in Transportation Programs	4	6	7	8	8
Other Sources	*	2	1	1	1
Total Growth from 1983	8	17	24	32	39

* Less than $500 million.

The second source of growth is pay raises for the employees of federal civilian agencies. The baseline assumes that federal employee pay is increased at the same rate as average earnings in the economy, and that this increase in pay costs is not absorbed through offsetting program cuts. Pay raises amount to $2 billion by 1984, $3 billion by 1985, and $9 billion by 1988.

Finally, spending for a number of transportation programs is slated to rise substantially in the future because of legislation enacted late last year. The Surface Transportation Assistance Act of 1982 (P.L. 97-424) provided multi-year obligations ceilings or budget authority for federal-aid highways, urban mass transportation, grants-in-aid for airports, and some smaller transportation programs. In the absence of further Congressional action, these programs will therefore grow over the next several years. This built-in growth in transportation programs accounts for $8 billion in outlay increases by 1988.

NET INTEREST

The net interest category for the most part represents interest costs for that portion of the federal debt held by the public, including the Federal Reserve System. It also includes interest payments on tax refunds and, as offsets, interest collections from federal agencies and the public. Interest paid to government trust funds has no net effect, since it is counted both as an outlay and an offsetting receipt.

Net interest costs depend on the level of the total interest-bearing debt held by the public and on interest rates. The debt held by the public grows by the amount of unified budget deficits and deficits of off-budget agencies that borrow from the Treasury. The net interest costs in the baseline reflect both the interest rate assumptions and the projected deficits detailed in Chapter II. Although interest rates are projected to decline, the federal budget deficit is large and rising throughout the projections period. As a result, net interest outlays grow more rapidly than total spending.

Net interest estimates are very sensitive to the assumptions made about future deficits and interest rates. An increase or decrease in the deficit of $10 billion in each fiscal year during the 1983-1988 period, for example, would cause net interest outlays to rise or fall by amounts ranging from $300 million in 1983 to $5 billion in 1988 (at baseline interest rates). A change in the interest rate assumptions has an even larger effect, since such a change affects the refinancing of federal debt incurred in prior years as well as the financing of new debt. Lowering all baseline interest rates by one percentage point starting in January 1983 would reduce net interest outlays by about $2 billion in 1983, increasing to $23 billion by 1988.

Were it not for the projected declines in interest rates, net interest outlays would increase at a phenomenal pace. As shown in Table 22, net interest outlays would more than double between 1983 and 1988 (given the projected baseline deficits) if interest rates remained at the levels prevailing in the final quarter of calendar year 1982. In the baseline, with large deficits but declining interest rates, net interest costs increase by slightly more than half over the projections period. If the budget deficit were held constant after 1983, net interest outlays would rise by about 40 percent.

TABLE 22. NET INTEREST OUTLAYS UNDER ALTERNATIVE ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Baseline Deficits and Constant Interest Rates	89	104	122	144	172	204
Baseline Deficits and Interest Rates	87	96	107	117	125	134
Baseline Interest Rates and Declining Deficits	87	96	106	114	119	124

OFFSETTING RECEIPTS

This category consists of certain federal government receipts that are subtracted from outlays rather than being included in revenues. It includes federal proprietary receipts from the public and federal agencies' payments (as employer) for employee retirement and health benefits. Receipts appropriately netted against outlays (for example, foreign military sales trust fund receipts and federal payments to trust funds) are included in the appropriate outlay category.

The major types of offsetting receipts are identified in Table 23. The largest single item is rents and royalties on Outer Continental Shelf (OCS) tracts. Close behind is the federal employer share of employee retirement. The third largest element is the premiums paid by enrollees in

Supplementary Medical Insurance (Medicare Part B) and by those who do not have sufficient quarters of coverage for Hospital Insurance (Medicare Part A). Other receipts are for the sale or lease of minerals, electric power, and timber.

TABLE 23. BASELINE PROJECTIONS OF OFFSETTING RECEIPTS (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Mineral Sales and Leases	-2	-2	-3	-3	-3	-3
Power Sales	*	-1	-1	-1	-1	-1
Timber Sales	-1	-1	-2	-2	-2	-2
Medicare Premiums	-4	-5	-6	-6	-6	-7
Employer Share, Employee Retirement	-8	-9	-10	-10	-11	-11
OCS Rents and Royalties	-10	-9	-9	-13	-12	-11
Other	-5	-7	-7	-6	-6	-7
Total	-32	-34	-36	-41	-40	-41

* Less than $500 million.

OFF-BUDGET FEDERAL ENTITIES

As explained in Chapter II, the spending of certain federal entities is excluded from the unified budget totals. The outlays of these off-budget entities, however, must be added to the unified budet deficit to derive the total federal deficit that must be financed. A new off-budget entity was created in 1981, when the Congress removed from the budget the appropriation for acquiring oil for the strategic petroleum reserve. The Postal Service fund was given off-budget status in 1974.

Except for the strategic petroleum reserve and the Postal Service fund, the outlays of the off-budget federal entities are incurred for carrying out federal loan programs. As shown in Table 24, the Federal Financing Bank (FFB) accounts for most of the projected off-budget outlays. The FFB's outlays do not come from programs that the FFB operates itself. Instead, the FFB assists other programs within the government by purchasing the outstanding loans (loan assets) or purchasing obligations they have guaranteed.

TABLE 24. BASELINE OUTLAY PROJECTIONS FOR OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Federal Financing Bank	14	11	13	16	13	14
Strategic Petroleum Reserve	2	3	2	2	4	2
Other	1	1	1	1	*	1
Total	17	15	16	19	17	17

* Less than $500 million.

When the FFB buys loan assets, it in effect converts direct loans that have already been made by another agency into off-budget direct loans of the FFB. If the selling agency is in the budget, its loan asset sales reduce net budget outlays. Also, when the FFB purchases newly originated guaranteed loans, it has the effect of converting loan guarantees that are not recorded in the budget totals into direct federal loans outside the budget. The FFB and federal credit activities are discussed in more detail in the next chapter.

EFFECT OF RECESSION AND LEGISLATIVE CHANGES ON OUTLAY PROJECTIONS

Despite the reductions in spending enacted over the past two years, baseline outlay projections today are higher than they were two years ago. Table 25 shows the reasons for this.

TABLE 25. DIFFERENCES BETWEEN JULY 1981 and FEBRUARY 1983 BASELINE OUTLAY PROJECTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986
July 1981 Outlay Projections	792	843	895	950
Differences Due to:				
Changed economic outlook	15	4	5	-1
Legislative actions				
Defense spending increases	15	27	47	65
Nondefense discretionary spending reductions	-26	-26	-25	-26
Entitlement reductions a/	-21	-31	-33	-35
Effect of legislative actions on interest costs	3	10	19	28
Subtotal	-29	-19	7	32
Technical estimating differences	22	22	23	18
Total differences	8	7	35	49
February 1983 Outlay Projections	800	850	929	999

a. Includes changes in other mandatory spending and offsetting receipts.

First, the recession of 1981-1983--unforeseen in the baseline assumptions of July 1981--has caused outlays to rise for unemployment insurance and other programs sensitive to the unemployment rates. In addition, the loss of tax revenues brought about by the recession has increased deficits and therefore indirectly increased interest outlays. Current inflation assumptions, however, are lower than they were two years ago; this slows the growth of indexed benefit programs and also reduces the outlay increases needed to keep discretionary programs constant in real terms. Only by 1986, however, does the effect of lower inflation dominate that of higher unemployment.

Second, assumed increases in defense spending and the indirect effects of legislative changes on interest costs also drive up outlays. In 1983 and 1984, the spending reductions are greater than the spending increases because of legislation, but the situation is reversed in 1985 and 1986, as the defense buildup gathers momentum and interest costs mount.

By 1986, reductions in entitlement spending total $35 billion. Reductions of $5 billion or more are found in farm price supports, Medicare, Social Security, unemployment compensation, and the nutrition and income assistance programs. Reductions in nondefense discretionary spending amount to about $26 billion per year. There are major reductions in energy programs (including moving the strategic petroleum reserve off budget), natural resources and environment (especially wastewater treatment grants), community development grants, training and employment, education assistance, and subsidized housing programs, among others. Although the reductions in nondefense discretionary spending and entitlements are similar in dollar amount, the relative cut in discretionary spending is twice as great, since it is less than half the size of the entitlement category.

The third factor increasing projected outlays is technical estimating differences, which have added about $20 billion to outlays each year. These consist primarily of unexpectedly higher outlays for farm price supports and Medicare benefits and lower receipts from offshore oil leases.

CHAPTER V. BASELINE CREDIT PROJECTIONS

CBO projects that federal credit activity will grow from a 1983 base of $136 billion in loan obligations and guarantee commitments to a level of $164 billion in 1988 if current policies remain in place. While this $28 billion increase is substantial, it represents a lower rate of growth than occurred in the 1970s, and it would result in a level of federal lending that declines in relation to GNP.

The growth of some credit programs, such as low-rent public housing, is limited by legal ceilings, and lending for commodity price supports is projected to decline. These factors offset projected large increases in federal guarantees for home mortgages. As a result, federal loan obligations and loan guarantee commitments are expected to rise 21 percent between 1983 and 1988 compared with a projected rise in GNP of 50 percent during the same period.

The section that follows describes the concept of the credit budget and defines terms used in the credit budget. The second section presents the credit budget projections in detail and summarizes trends in federal lending by major program category.

CREDIT DEFINITIONS AND ASSUMPTIONS

As discussed earlier in this report, some federal spending--notably a substantial portion of federal credit activities--is omitted from the unified budget. Projections of off-budget spending were therefore included in Chapter IV to provide a more comprehensive measure of federal outlays. Off-budget spending was also added to the unified budget deficit in Chapter II in order to compute a total federal government deficit.

Even when off-budget spending is included, however, the deficit does not give a complete picture of the federal government's impact on credit markets. The picture is incomplete because of two factors: (1) the inclusion of only net borrowing--new loans less repayments--both on and off budget; and (2) the exclusion of federal loan guarantees from on- or off-budget spending totals.

Since the budget operates on a cash-flow basis, repayments of loans count as an offset to outlays. This understates the volume of new lending by the government. Loan guarantees do not show up at all as a transaction in the budget unless there is a loan default.

In 1981, the federal government entered into net direct loan obligations and primary loan guarantee commitments of $133.7 billion; the resulting net outlays were $5.2 billion in the unified budget and $20.9 billion off budget. The credit budget exists in order to correct these problems in measurement and to provide a means for controlling federal credit.

The federal government provides credit to individuals, businesses, institutions, localities, and foreign governments in two ways: by directly lending to borrowers, and by guaranteeing loans made to borrowers by third parties. (There is considerable variety in federal credit programs; some programs consist of only direct lending or guarantees while others entail both.) The credit budget includes all lending by federal agencies but does not include activities of government-sponsored enterprises. 1/ Within the credit budget, direct loans and loan guarantees are recorded separately.

The definitions and program descriptions that follow in this chapter focus on net direct loan obligations and primary loan guarantees, since these concepts measure new credit extended. Adjustments must be made to gross direct loans and loan guarantees in order to remove double-counting and reach the net direct loan and primary guarantee levels.

A direct loan obligation is a contract between the federal government and a borrower where the federal government pledges to make a loan to the borrower when and if the latter meets certain specified conditions. New direct loan obligations measure new credit contracts initiated by the government. By controlling obligations, the Congress can limit the amount of direct loans. Once the obligation occurs, funds must be disbursed when the specified conditions are met.

Net direct loan obligations consist of obligations entered into for new loans to be disbursed by the federal government. Net direct loan obligations differ from gross direct loan obligations in that the former exclude loan asset sales--a financial transaction where an agency issuing a loan combines a group of existing direct loans and sells them in order to obtain new funds

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1. Government-sponsored enterprises are those created by the government that, while now privately owned, consult with the Treasury Department in the marketing of their debt. The major examples are the Federal National Mortgage Association, the Student Loan Marketing Association, the Federal Home Loan Mortgage Corporation, and the Farm Credit Administration.

for lending. The Farmers' Home Administration (FmHA) is the major seller of loan assets, accounting for 96 percent of the $12.6 billion in loan asset sales that took place in 1982. Although federal loan assets can be sold directly to the public, the Federal Financing Bank (FFB) purchased nearly all federal loan assets in 1982. 2/ Loan asset sales must therefore be subtracted from gross direct loan obligations to avoid double-counting of the transaction of the originating agency and the FFB. The credit budget records FFB purchases of loan assets as direct loans of the FFB.

Net direct loan obligations totaled $60.3 billion in 1982. The largest credit programs in terms of net direct loan obligations in 1982 were Commodity Credit Corporation price supports ($13.7 billion), Farmers Home Administration agricultural credit insurance ($8.8 billion), the Rural Electrification Administration ($5.4 billion), and the Tennnessee Valley Authority energy supply program ($4.5 billion). Net direct loan obligations include on- and off-budget lending programs as well as loans guaranteed by on-budget agencies but which are made by the FFB and disbursed from its funds.

The other major component of the credit budget is loan guarantee commitments. A loan guarantee commitment is a contract between the federal government and a lender that assures repayment to that lender of a loan extended to a qualified private borrower. The lender and borrower must meet certain conditions before a loan guarantee is issued. The Congress can control loan guarantees by limiting commitments or by establishing program criteria in authorizing legislation.

Primary loan guarantee commitments, like net direct loan obligations, reflect only new lending activity. Primary loan guarantees exclude guarantees of FFB direct loan transactions (both loan asset sales and loan guarantees purchased by the FFB and guaranteed by agencies) and secondary loan guarantees, which are guarantees issued for loans previously guaranteed by the federal government. (The Government National Mortgage Association issues secondary guarantees for mortgages that are insured by the Federal Housing Administration and the Veterans Administration to facil-

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2. The FFB is an off-budget agency within the Treasury Department created to consolidate borrowing by federal agencies. The FFB purchases loans with funds borrowed from the Treasury. Since borrowing from the FFB for credit programs is treated the same as a loan repayment in the unified budget, the FFB has the effect of transferring outlays for credit programs off-budget. FFB outlays are the major component of the off-budget deficit.

itate a secondary market and to increase the liquidity of these transactions.)

In 1982, the federal government issued $66.6 billion in primary guarantee commitments. Among the major programs were: Federal Housing Administration (FHA) housing programs ($11.5 billion), Department of Housing and Urban Development low-rent public housing ($27.0 billion), the Export-Import Bank ($9.2 billion), and guaranteed student loans ($6.2 billion).

The credit budget baseline, like the unified and off-budget baselines, shows the level of federal activity that would result if current policies were to remain in place. The limits set by the House and Senate Appropriations Commttees for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule exist for programs for which there are no appropriation limits (entitlements, defaults, and FFB transactions) and some programs for which the appropriation limits are in excess of the actual level of obligations or commitments that the program will generate. [3] For both of these exceptions, CBO's estimates of program obligations or commitments were used as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections to keep the limits constant with the rise in prices. Programs with 1983 base levels lower than appropriation limits were inflated in a similar fashion. The projections were limited by any existing authorization ceilings on lending activity, however. Credit programs without appropriation limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or FFB transactions for the individual accounts. Aside from the inflation rate, the major economic assumptions that affect credit are interest rates, housing sales, and farm prices.

CREDIT PROJECTIONS

CBO's baseline projections have net direct loan obligations and primary loan guarantee commitments rising from a total of $136 billion in 1983 to $164 billion in 1988, an increase of 21 percent. Net direct loan obligations are projected to remain constant at $49 billion from 1983 through 1985, decline slightly in 1987, and then rise to $52 billion by 1988.

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[3] For fiscal year 1983, 69 percent of direct loan obligations and 31 percent of primary loan guarantees are not limited by Appropriations Committee action.

The increase from 1983 to 1988 is a modest 6 percent. The increases for primary loan guarantee commitments are more consistent and larger. Commitments are projected to rise 4 percent to 6 percent in each year, from $87 billion in 1983 to $111 billion in 1988. The total rise for the period is 29 percent. Table 26 summarizes the increases in net direct loan obligations and primary guarantee commitments.

TABLE 26. BASELINE CREDIT PROJECTIONS (By fiscal year, in billions of dollars)

	1982 Actual	1983 Base	Projections				
			1984	1985	1986	1987	1988
Net Direct Loan Obligations							
On-budget	45	32	33	31	29	32	34
FFB Purchases of agency guarantee loans	14	16	16	17	17	17	17
Other off-budget	1	1	1	1	1	1	1
Subtotal	60	49	49	49	47	50	52
Primary Loan Guarantees	67	87	90	95	101	106	111
Total	127	136	139	144	148	156	164
Secondary Guarantees a/	69	68	72	75	78	81	84

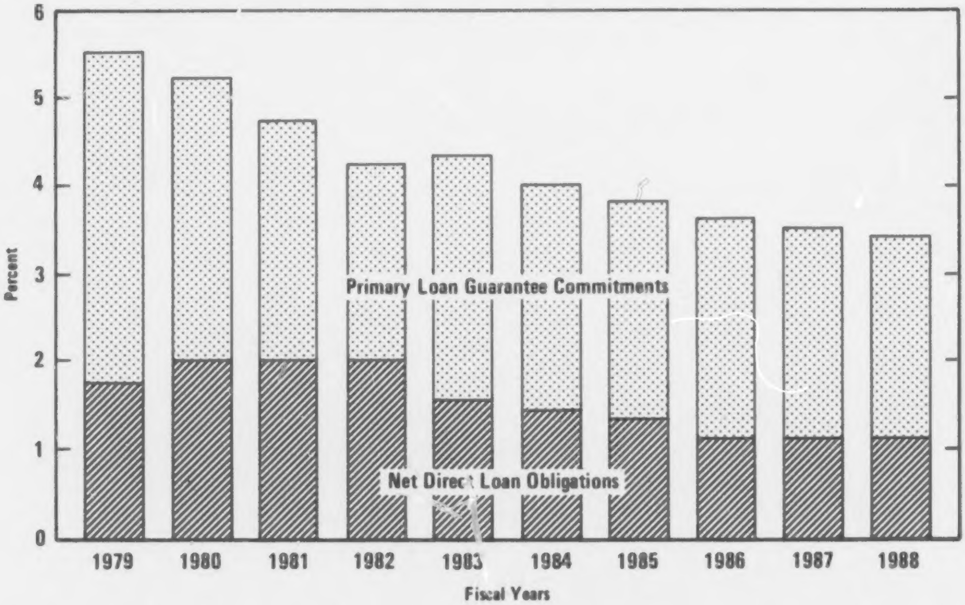
a. Appropriation limits rather than actual commitments.

While projected federal credit activity rises in absolute terms, it declines as a percentage of GNP between 1983 and 1988. GNP is projected to grow 50 percent from 1983 to 1988 while credit activity is projected to rise only 21 percent. This is in contrast to the period of 1973 to 1982, when GNP doubled and credit activity tripled. Figure 12 shows credit as a percentage of GNP. Net direct loan obligations fall from 1.5 percent of GNP in 1983 to 1.1 percent in 1986 through 1988. The decline for primary loan guarantees is more gradual, falling from 2.7 percent of GNP in 1983 to 2.3 percent in 1988.

The changes in the distribution of federal lending between 1983 and 1988, assuming continuation of current policies, can be explained best by dividing credit programs into six major categories of loans: housing,

Figure 12.

Federal Credit as a Percentage of GNP



business and industry, agriculture and rural development, loans for foreign actions, loans for individuals, and all other. Table 27 contains projections of net direct loan obligations and primary loan guarantees by purpose of loan. 4/ The credit projections by budget function are shown in Appendix F.

The distribution of federal lending by category shows that housing programs will maintain their predominant role in the credit budget. Housing loans increase from 54 percent of the total in 1983 to 58 percent in 1988. Loans for business and industry are the other category expected to have major growth. The following paragraphs summarize the reasons for this pattern and define the major loan programs in each category.

Housing Loans

Net direct loans for housing are projected to remain fairly constant in 1983 and 1984 but then to decline from $10 billion in 1984 to $7 billion in

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4. Since some loan programs serve multiple purposes (such as home loans for farmers and military sales credit), the classification of loan programs is somewhat arbitrary. While the classification affects category, the patterns of change would not alter substantially if these multipurpose programs were reclassified.

TABLE 27. BASELINE PROJECTIONS OF NET DIRECT LOAN OBLIGATIONS AND PRIMARY LOAN GUARANTEE COMMITMENTS BY PURPOSE OF LOAN (By fiscal year, in billions of dollars)

		1982 Actual	1983 Base	Projections				
				1984	1985	1986	1987	1988
Housing Loans	DL	13	9	10	8	7	8	9
	PG	42	64	67	72	76	81	85
	Total	55	72	77	80	83	88	94
Loans for Business and Industry	DL	11	13	15	16	16	16	15
	PG	14	13	13	13	14	15	15
	Total	25	26	28	29	30	31	31
Loans for Agriculture and Rural Development	DL	30	19	17	17	17	18	19
	PG	3	4	3	3	3	3	4
	Total	33	23	20	20	20	21	23
Loans to Foreign Countries	DL	5	6	6	6	6	7	7
	PG	*	*	1	*	*	*	*
	Total	5	6	6	6	6	7	7
Loans for Individuals	DL	1	1	1	1	1	1	1
	PG	6	6	7	7	7	7	7
	Total	7	7	7	7	7	8	8
All Other	DL	1	1	1	1	1	1	1
	PG	1	*	*	*	*	*	*
	Total	2	1	1	1	1	1	1
Total	DL	60	49	49	49	47	50	52
	PG	67	87	90	95	101	106	111
	Total	127	136	139	144	148	156	164

DL = Net Direct Loan Obligations.

PG = Primary Loan Guarantee Commitments.

1986, followed by a gradual increase to $9 billion in 1988. These fluctuations are the results of the changing volume of loan assets repurchased by the FmHA from the FFB. FmHA accounts for roughly two-thirds of direct loan obligations for housing. FmHA direct loan commitments, excluding FFB transactions, are projected to increase steadily from about $3.3 billion in 1983 to $4.1 by 1988.

Primary loan guarantee commitments for housing are expected to increase steadily from $64 billion in 1983 to $95 billion in 1988. This increase in commitments results from the projections of stabilized interest rates and a resurgence in home sales. The rise in total guarantees is in sharp contrast to the flat level of guarantee commitments in 1982 and 1983. VA guarantee commitments are an entitlement program and cannot be limited by Appropriations Committee action. They are expected to increase rapidly, with commitments tripling between 1983 and 1988. FHA mortgage insurance commitments are subject to limit and therefore are projected to grow at the same pace as inflation. 5/ One type of housing loan guarantee not projected to increase is the low-rent public housing program, which is at or near a ceiling of $20 billion for 1983 through 1988.

Loans for Business and Industry

The category of loans for business and industry consists of loans made to both businesses and government-sponsored enterprises. Loans to businesses contain few entitlements or insurance-type programs and therefore both net direct loan obligations and primary loan guarantee commitments would experience slow but steady growth if current policies were to remain unchanged. Net direct loan obligations and primary guarantee commitments are each expected to increase $2.1 billion and $2.7 billion, respectively, between 1983 and 1988. The Export-Import Bank, which makes direct loans and guarantees to enable U.S. firms to be competitive abroad, accounts for roughly one-third of direct loans and three-fourths of guarantees for businesses. Small Business Administration loan guarantee commitments are projected to keep pace with inflation, growing from $2.8 billion to $3.5 billion between 1983 and 1988. The TVA is responsible for the bulk of remaining direct loans in this category. The Seven States Energy Corporation, which leases nuclear fuel to the TVA, uses TVA leases to guarantee direct loans by the FFB.

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5. FHA makes commitments to lenders prior to a contract between the lender and the borrower. The limited amounts are the initial commitments to lenders. The actual commitments are included in the projections totals.

Loans for Agriculture and Rural Development

The erratic levels of lending for agriculture and rural development reflect projections of fairly consistent growth in lending by some development agencies such as the Rural Electrification Administration (REA) together with a considerable variation in agricultural direct loans such as Commodity Credit Corporation (CCC) price supports. The erratic levels of these programs results from the great fluctuations that occur in farm prices. Total direct loan obligations and loan guarantee commitments are projected to decline from $23 billion in 1983 to $20 billion in 1984. A return to the $23 billion level is projected for 1988.

Loans to Foreign Countries

The foreign military sales credit program, which lends funds to foreign nations to enable them to purchase U.S. weapons and training, is responsible for the bulk of lending in this category. Like most programs subject to Appropriations Committee limits, the baseline projections reflect a steady, continued rise with direct loans increasing from under $6 billion in 1983 to over $7 billion in 1988.

Loans for Individuals

The major component of this category is the guaranteed student loan (GSL) program. The majority of the direct loans in this category represent projected GSL defaults. 6/ The constant level of loan guarantees is caused by an assumption that tighter eligibility requirements will hold down the growth in new GSL commitments. The remaining loans in this category are for several smaller education programs and for all veterans' loans except for housing.

All Other

This category, as the title suggests, includes a mixture of programs, but many of the programs are loans to local and territorial governments. The largest direct loans are made to the District of Columbia for capital and general funds. The one large loan guarantee program--for New York City bonds--expired in 1982. Obligations and commitments are not expected to exceed $1 billion for this category through 1988.

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6. Loan guarantee defaults are treated as direct loans to borrowers because the guaranteeing agency pays the lender and in return acquires the lender's rights to any future repayment or to the proceeds collected from the liquidation of any collateral.

APPENDIXES

APPENDIX A. BASELINE SPENDING PROJECTIONS BY FUNCTIONAL AND MAJOR PROGRAM CATEGORY

The outlay categories used in the body of this report are designed to reflect the way in which the Congress approached spending decisions last year. This appendix provides a classification of federal spending in terms of two further analytical structures: budget function and major program category. The two analytical structures are first defined and compared. There follows a brief analysis of spending trends using each of the two approaches.

One important classification of federal spending is by the major functions being served by federal programs. The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and outlays for each major function in its annual budget resolutions. The functional classification is a means of presenting spending estimates according to the national needs that federal programs are intended to serve, regardless of the methods used to carry out the activities. National needs are grouped in 16 broad areas, ranging from national defense, international affairs, and energy programs to agriculture, transportation, health, and general government programs. Three additional categories--net interest, allowances, and undistributed offsetting receipts--do not address specific national needs but are included to cover the entire budget.

The second way of categorizing federal spending is by major program category. This approach focuses more on the method of carrying out an activity than does the functional classification. The major program categories are national defense, benefit payments to individuals, grants to state and local governments (other than for benefit payments), net interest, and other federal operations.

The relationship between the functional classification and the major program spending categories is as follows:

- The national defense and net interest categories are the same for both classifications.
- The bulk of benefit payments for individuals are classified in the health, income security, and veterans' benefits and services categories (functions 550, 600, and 700).

- Grants to state and local governments (other than grants for payments for individuals) are found in functions 300, 400, 450, 500, and 850.

- Other federal operations are distributed throughout all functional categories except national defense and interest.

FUNCTIONAL DISTRIBUTION OF BASELINE PROJECTIONS

Tables A-1 and A-2 present the baseline projections of budget authority and outlays by the 19 major functions used for Congressional budget resolutions. The largest single functional category in 1983 is income security (function 600), which consists mainly of benefit payments for individuals such as Social Security and other general retirement and disability insurance, federal civilian employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance, and other benefit programs. In 1983, outlays for this function are estimated to be $277 billion, which represents 35 percent of total budget outlays. Under the baseline assumptions, outlays for income security programs are projected to grow by $75 billion, to $352 billion in 1988. As a share of total budget outlays, income security programs would decline somewhat by the end of the projection period (31 percent in 1988).

The next largest function in 1983 is national defense (function 050), which makes up 27 percent of total outlays in 1983 and is projected to grow as a share of total baseline outlays to about 31 percent by 1988. By 1988, national defense would surpass income security as the largest function under baseline assumptions. Another function that is projected to grow faster than total budget outlays under baseline assumptions is the health category (function 550), largely because cost increases are assumed to continue to be more rapid for the Medicare and Medicaid programs than for other domestic programs. Health outlays are projected to grow from 10 percent of total outlays in 1983 to 13 percent by 1988 under continuation of existing spending policies. Transportation programs (function 400) are projected to increase from 2 percent of total outlays in 1983 ($22 billion) to 3 percent in 1988 ($31 billion); this results primarily from spending elements of the Surface Transportation Assistance Act of 1982.

Outlays for net interest (function 900) are projected to grow from 11 percent of total outlays in 1983 to 12 percent in 1988. Spending for the remaining functions is, in the aggregate, roughly constant over the forecast period but declines as a percentage of total outlays from 15 percent to 11 percent.

TABLE A-1. BASELINE BUDGET AUTHORITY PROJECTIONS BY FUNCTION (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
National Defense (050)	244	278	322	350	373	398
International Affairs (150)	16	28	17	17	19	20
General Science, Space, and Technology (250)	8	8	8	8	8	9
Energy (270)	4	4	4	4	5	5
Natural Resources and Environment (300)	12	12	12	12	13	13
Agriculture (350)	14	9	13	10	10	10
Commerce and Housing Credit (370)	5	6	7	8	8	8
Transportation (400)	27	28	29	30	31	32
Community and Regional Development (450)	7	7	8	9	9	9
Education, Training, Employment, and Social Services (500)	27	30	30	31	32	33
Health (550)	67	94	104	116	128	139
Income Security (600)	282	285	306	327	346	366
Veterans' Benefits and Services (700)	25	26	26	26	27	27
Administration of Justice (750)	5	5	5	6	6	6
General Government (800)	6	6	6	6	6	6
General Purpose Fiscal Assistance (850)	6	7	7	8	8	8
Net Interest (900)	87	96	107	117	125	134
Allowances (920)	1	2	3	5	7	9
Undistributed Offsetting Receipts (950)	-18	-18	-19	-24	-23	-23
Total	824	913	997	1,066	1,138	1,210

TABLE A-2. BASELINE OUTLAY PROJECTIONS BY FUNCTION (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
National Defense (050)	213	242	278	310	333	358
International Affairs (150)	11	13	13	13	14	13
General Science, Space, and Technology (250)	8	8	8	8	8	9
Energy (270)	5	4	4	4	5	5
Natural Resources and Environment (300)	13	12	12	12	12	12
Agriculture (350)	20	12	11	8	8	9
Commerce and Housing Credit (370)	3	1	1	1	1	1
Transportation (400)	22	25	27	29	30	31
Community and Regional Development (450)	8	8	9	8	8	8
Education, Training, Employment, and Social Services (500)	27	27	29	30	31	32
Health (550)	82	92	103	116	132	148
Income Security (600)	277	284	299	316	333	352
Veterans' Benefits and Services (700)	24	25	26	26	27	27
Administration of Justice (750)	5	5	5	6	6	6
General Government (800)	6	6	6	6	6	6
General Purpose Fiscal Assistance (850)	6	7	7	8	8	8
Net Interest (900)	87	96	107	117	125	134
Allowances (920)	1	2	3	5	7	9
Undistributed Offsetting Receipts (950)	-18	-18	-19	-24	-23	-23
Total	800	850	929	999	1,072	1,145

DISTRIBUTION OF OUTLAYS BY MAJOR PROGRAM CATEGORY

Table A-3 shows the distribution of baseline outlays by major program category. The largest category is which represents $386 billion (12.1 percent of GNP) in 1983. These programs provide both direct payments from the federal government to individuals (such as Social Security benefits) and indirect payments through state and local governments (such as Medicaid and public assistance). The indirect benefit payments category is projected to stay roughly level as a percent of GNP, while the direct benefit payments category grows less rapidly than GNP. Most of these benefit payments are considered entitlements and were discussed in detail in the entitlements section of Chapter IV.

The second largest of the major purpose categories is national defense. As noted earlier, the national defense and net interest categories are identical to the budget functions of the same names.

Grants to state and local governments (other than for benefit payments) total $49 billion in 1983 (1.5 percent of GNP). Programs in this category include grants for the construction of wastewater treatment plants, grants for highway construction, community development grants, aid for elementary and secondary education, employment and training assistance, and general revenue sharing. This category of spending is projected to grow only slightly less rapidly than GNP.

The other federal operations category includes the remainder of the budget. The major spending components are foreign aid, general science research and space technology, domestic energy programs, farm price supports, housing credit activities, and other day-to-day operations of the federal government. It also includes as offsets most of the receipts discussed in Chapter IV. The amount of net spending in this category is projected to remain roughly level in dollar terms and to decline from 2.0 percent of GNP in 1983 to 1.3 percent in 1988.

TABLE A-3. BASELINE OUTLAY PROJECTIONS BY MAJOR PROGRAM CATEGORY (By fiscal year)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
				In Billions of Dollars		
National Defense a/	213	242	278	310	333	358
Benefit Payments for Individuals						
Direct	342	357	380	408	438	470
Indirect b/	44	46	50	53	57	71
Subtotal	386	404	431	462	495	531
Grants to State and Local Governments c/	49	52	55	57	59	61
Net Interest	87	96	107	117	125	134
Other Federal Operations	64	57	59	54	59	62
Total Budget Outlays	800	850	929	999	1,071	1,145
				As a Percent of GNP		
National Defense a/	6.7	6.9	7.3	7.5	7.5	7.5
Benefit Payments for Individuals						
Direct	10.7	10.2	10.0	9.9	9.8	9.8
Indirect b/	1.4	1.3	1.3	1.3	1.3	1.3
Subtotal	12.1	11.5	11.3	11.2	11.1	11.1
Grants to State and Local Governments c/	1.5	1.5	1.4	1.4	1.3	1.3
Net Interest	2.7	2.7	2.8	2.8	2.8	2.8
Other Federal Operations	2.0	1.6	1.5	1.3	1.3	1.3
Total Budget Outlays	25.0	24.3	24.3	24.1	24.0	23.9

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a. Includes benefit payments for retired military personnel.

b. Some grants to state and local governments are for benefit payments, such as Medicaid and public assistance (AFDC). These grants are classified here as indirect benefit payments for individuals.

c. Includes grants for purposes such as general revenue sharing, highway construction, community development, and employment and training assistance. It does not include grants for benefit payments.

APPENDIX B. BASELINE SPENDING PROJECTIONS BY COMMITTEE JURISDICTION

This appendix provides an allocation of the baseline spending projections for 1984-1988 among Congressional spending and authorizing committees. The need for such allocations arises from various aspects of the Congressional budget process.

Section 301(c) of the Congressional Budget Act (Public Law 93-344) requires that House and Senate committees report to the Budget Committees by March 15 their estimates of the new budget authority, and the resulting outlays, that they intend to provide for the upcoming fiscal year. Through these reports, committees state their views and recommendations as a first step in Congressional decisionmaking on the budget. To assist in preparing these reports, the Budget Committees furnish the committees in their respective Houses with budget estimates and projections organized by committee jurisdiction. In 1982, both the Senate and the House Budget Committees used the Congressional Budget Office baseline spending projections for this purpose.

Committee allocations are even more crucial later in the budget process. Section 302 of the Budget Act requires that the joint explanatory statement accompanying a conference report on a concurrent budget resolution include an estimated allocation of the resolution spending totals among the committees of the House of Representatives and the Senate that have jurisdiction over bills and resolutions that provide new budget authority. This allocation of budget resolution spending totals (budget authority and outlays) among committees with spending jurisdiction has become known as the committee "crosswalk." (It is also referred to as the section 302 committee allocation.)

The allocation of baseline spending projections by authorizing committee was used by the Budget Committees as the basis for developing the reconciliation instructions contained in the budget resolutions for fiscal years 1981 and 1982. The reconciliation instructions were directed only to authorizing committees and required those committees to reduce spending by specified amounts below baseline levels. Each committee, however, had discretion regarding how these savings were to be achieved.

The committee allocations also are a key part of budget scorekeeping. Committee actions on bills and resolutions providing new budget authority and, in the House, new entitlement authority are compared with the committee allocations in the budget resolution to determine whether they are consistent. In this way, committees can be held accountable for actions that would cause the budget resolution spending totals to be exceeded.

ALLOCATION BY SPENDING JURISDICTION

The allocation of spending totals is determined according to the committees having responsibility for bills and resolutions that provide budget authority or directly affect outlays. The spending allocation rules were developed by staff of the Appropriations and Budget Committees of both Houses and by CBO. They are used by the Budget Committees for developing the budget resolution section 302 crosswalk estimates and by CBO in its scorekeeping tabulations.

The following rules are applied by both the House and the Senate in determining direct spending jurisdictions.

- The Appropriations Committees of each House receive allocations for budget authority and outlays that are provided through regular annual appropriation acts, both discretionary and mandatory, including outlays resulting from annual appropriations enacted in prior years. These committees also receive allocations for the outlays resulting from limitations on spending from trust and revolving funds as established in annual appropriation acts. (The annual limitation on the administrative expenses of the Social Security programs is an example.)

- Committees with authorizing jurisdiction are allocated the budget authority and outlays resulting from permanent appropriations under the jurisdiction of each of these committees. Most trust fund spending, such as Social Security and unemployment compensation, falls into this category.

- Offsetting receipts, which are recorded as negative budget authority and outlays in the budget, are not allocated to committees except where the budget resolution anticipates that new legislation will increase or decrease the level of offsetting receipts; in such cases, the increase or decrease is allocated to the authorizing committee of jurisdiction.

In addition to these procedures, the Senate has a further rule for entitlement programs that are funded through annual appropriation acts (such as Medicaid or veterans' pensions). In the Senate, budget authority and outlays for annually appropriated entitlements are, under section 302, assigned both to the Appropriations Committee (the first basic rule above) and to the authorizing committees with jurisdiction over the particular entitlement programs. This is because the basic entitlement legislation, though not directly providing the budget authority and outlays, essentially "locks in" the levels that must be provided through the annual appropriation process.

In the House, this phenomenon is reflected through an allocation to authorizing committees of entitlement authority--an additional category beyond budget authority and outlays. This allocation includes amounts for both permanent and appropriated entitlements.

Table B-1 shows the trends in spending by committee jurisdiction (using House committees as an example) from 1970 to 1988. Tables B-2 and B-3 provide a detailed distribution of the baseline budget authority and outlay projections for 1984-1988 by House and Senate committees with spending jurisdiction.

About half of the baseline budget authority and outlays that are allocated to committees fall under the jurisdiction of the Appropriations Committees throughout the projections period. A growing portion of this amount is projected to be devoted to national defense, while a smaller portion will be devoted to appropriated entitlements and other nondefense appropriations. The Appropriations Committees' share, however, will be substantially less than in 1970 when it was two-thirds of gross outlays.

The House Ways and Means Committee is allocated approximately 40 percent of gross budget authority and outlays (before offsetting receipts are deducted). This is a large increase from 1970, when the Ways and Means Committee had jurisdiction over less than 30 percent of spending, and reflects primarily the relative growth of Social Security, Medicare, and interest on the public debt. The Senate Finance Committee is allocated about 47 percent of gross budget authority and outlays (before offsetting receipts are deducted). Its share of spending is larger than that of the Ways and Means Committee in the House primarily because of the addition of a number of appropriated entitlements.

ALLOCATION BY AUTHORIZING JURISDICTION

Tables B-4 and B-5 provide a distribution of the CBO baseline budget authority and outlay projections for 1984-1988 by House and Senate committees with jurisdiction over the authorization (not appropriation) of funds for programs. Offsetting receipts are not allocated to committees under the conventions adopted by the Budget Committees.

Some budget accounts fund activities authorized by laws over which more than one committee had jurisdiction. The Senate Budget Committee divides all such accounts among committees in appropriate proportions. House Budget Committee procedures, however, provide for shared authorizing jurisdiction. The total spending for shared jurisdiction accounts is allocated to all House committees with authorizing jurisdiction over these accounts. As a result, the sum of the individual House committee allocations shown in Table B-4 exceeds the total amount of baseline budget authority and outlays allocable to authorizing committees. The sum of the individual Senate authorizing committee jurisdiction allocations, on the other hand, equals the baseline spending totals.

The major amounts of authorized spending in the House of Representatives fall under the jurisdiction of the Ways and Means, Armed Services, and Post Office and Civil Service Committees. These three House committees have authorizing jurisdiction over three-quarters of the total amount of budget authority allocated to the committees shown in Table B-4. In the Senate, the principal authorizing committees are Finance, Armed Services, and Governmental Affairs. These three Senate committees have authorizing jurisdiction over 80 percent of the total budget authority allocated to the committees shown in Table B-5.

TABLE B-1. TRENDS IN SPENDING BY HOUSE COMMITTEE JURISDICTION (By fiscal year)

	Actual		1983 Base	1988 Projection
	1970	1980		
In Billions of Dollars				
Appropriations Committee				
Appropriated entitlements	17	66	92	102
National defense (except retired pay)	76	125	198	338
Other	48	170	182	242
Subtotal	141	361	472	682
Authorizing Committees				
Ways and Means	60	242	384	550
Other committees	10	55	79	81
Subtotal	70	297	463	631
Gross Outlays	211	658	935	1,313
Offsetting Receipts (not allocated to committees)	-15	-81	-135	-168
Net Outlays	196	577	800	1,145
Percent of Gross Outlays				
Appropriations Committee				
Appropriated entitlements	8.1	10.0	9.8	7.8
National Defense (except retired pay)	36.0	19.0	21.2	25.7
Other	22.7	25.8	19.5	18.4
Subtotal	66.8	54.9	50.5	51.9
Authorizing Committees				
Ways and Means	28.4	36.8	41.1	41.9
Other committees	4.7	8.4	8.4	6.2
Subtotal	33.2	45.1	49.5	48.1
Gross Outlays	100.0	100.0	100.0	100.0

TABLE B-2. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH SPENDING JURISDICTION (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Budget Authority						
Appropriations Committee	491	548	595	633	671	713
Authorizing Committees						
Ways and Means	375	405	442	481	513	548
Post Office and Civil Service	47	51	55	58	61	61
Other	46	51	51	51	54	56
Subtotal (allocated to authorizing committees)	468	507	548	590	628	665
Offsetting Receipts (not allocated to committees)	-135	-142	-146	-157	-161	-168
Total	824	913	997	1,066	1,138	1,120
Outlays						
Appropriations Committee	472	509	557	602	641	682
Authorizing Committees						
Ways and Means	384	410	443	479	514	550
Post Office and Civil Service	32	36	38	40	42	44
Other	47	37	37	35	36	37
Subtotal (allocated to authorizing committees)	463	483	518	554	592	631
Offsetting Receipts (not allocated to committees)	-135	-142	-146	-157	-161	-168
Total	800	850	929	999	1,072	1,145

NOTE: Jurisdiction corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

TABLE B-3. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH SPENDING JURISDICTION (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Budget Authority						
Appropriations Committee	491	548	595	633	671	713
Authorizing Committees						
Finance	429	462	500	540	575	614
Governmental Affairs	47	52	55	58	61	61
Other	78	81	84	85	89	92
Subtotal (allocated to authorizing committees)	554	595	639	683	725	767
Elimination of Double Counting a/	-86	-88	-91	-93	-97	-102
Offsetting Receipts (not allocated to committees)	-135	-142	-146	-157	-161	-168
Total	824	913	997	1,066	1,138	1,210
Outlays						
Appropriations Committee	472	509	557	602	641	682
Authorizing Committees						
Finance	444	467	501	538	576	616
Governmental Affairs	32	36	38	40	43	45
Other	79	69	70	69	70	72
Subtotal (allocated to authorizing committees)	552	572	609	647	689	733
Elimination of Double Counting a/	-92	-89	-91	-93	-97	-102
Offsetting Receipts (not allocated to committees)	-135	-142	-146	-157	-161	-168
Total	800	850	929	999	1,072	1,145

NOTE: Jurisdication corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

a. Annually appropriated entitlements allocated to both appropriations and authorizing committees.

TABLE B-4. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH AUTHORIZING JURISDICTION
(By fiscal year, in billions of dollars)

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Agriculture							
Sole jurisdiction	BA	28	23	27	25	26	26
	O	35	26	25	23	24	25
Shared jurisdiction	BA	3	3	3	4	4	4
	O	3	3	3	4	4	4
Armed Services							
Sole jurisdiction	BA	245	278	321	348	370	394
	O	214	242	277	308	330	354
Shared jurisdiction	BA	2	2	2	2	2	2
	O	2	2	2	2	2	2
Banking, Finance, and Urban Affairs							
Sole jurisdiction	BA	19	31	26	27	28	29
	O	17	16	18	18	18	19
Shared jurisdiction	BA	5	5	5	5	6	6
	O	4	4	5	5	5	5
District of Columbia							
Sole jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Education and Labor							
Sole jurisdiction	BA	27	26	29	30	31	32
	O	26	27	28	29	30	31
Shared jurisdiction	BA	6	10	7	7	8	8
	O	6	7	7	7	7	8

(Continued)

TABLE B-4. CONTINUED

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Energy and Commerce							
Sole jurisdiction	BA	46	55	60	66	73	80
	O	52	56	61	67	74	81
Shared jurisdiction	BA	25	29	31	36	41	46
	O	24	27	30	34	39	44
Foreign Affairs							
Sole jurisdiction	BA	24	29	25	25	26	27
	O	21	22	23	24	24	24
Shared jurisdiction	BA	1	1	1	2	2	2
	O	1	1	1	2	2	2
Government Operations							
Sole jurisdiction	BA	10	10	10	11	11	12
	O	10	10	10	11	11	12
House Administration							
Sole jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Interior and Insular Affairs							
Sole jurisdiction	BA	6	6	7	7	7	7
	O	6	6	6	7	7	7
Shared jurisdiction	BA	5	5	6	6	7	7
	O	5	5	6	6	7	7
Judiciary							
Sole jurisdiction	BA	5	5	5	5	5	5
	O	5	5	5	5	5	5
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*

* Less than $500 million.

(Continued)

TABLE B-4. CONTINUED

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Merchant Marine and Fisheries							
Sole jurisdiction	BA	2	2	2	3	3	3
	O	2	2	2	2	2	3
Shared jurisdiction	BA	3	3	3	4	4	4
	O	3	3	4	4	4	4
Post Office and Civil Service							
Sole jurisdiction	BA	54	61	67	73	79	83
	O	39	45	50	56	61	67
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Public Works and Transportation							
Sole jurisdiction	BA	26	27	28	29	30	31
	O	22	25	27	28	29	30
Shared jurisdiction	BA	8	9	9	9	10	10
	O	8	8	9	9	10	10
Science and Technology							
Sole jurisdiction	BA	9	9	9	9	9	10
	O	9	9	9	9	9	10
Shared jurisdiction	BA	4	5	5	6	6	6
	O	5	5	5	5	6	6
Select Committee on Intelligence							
Sole jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*

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* Less than $500 million.

(Continued)

TABLE B-4. CONTINUED

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Small Business							
Sole jurisdiction	BA	1	1	2	2	2	2
	O	1	1	2	2	2	2
Veterans' Affairs							
Sole jurisdiction	BA	26	26	27	27	27	27
	O	25	26	27	27	27	27
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Ways and Means							
Sole jurisdiction	BA	390	413	446	479	507	538
	O	408	427	455	486	517	550
Shared jurisdiction	BA	26	33	33	37	42	48
	O	25	28	32	36	40	46
Total Allocations							
Sole jurisdiction	BA	917	1,004	1,092	1,167	1,236	1,309
	O	893	948	1,026	1,102	1,173	1,247
Shared jurisdiction a/	BA	42	50	51	55	62	68
	O	41	44	49	53	59	65
Unallocated to Committees							
Sole jurisdiction	BA	-135	-141	-145	-156	-160	-167
	O	-135	-141	-145	-156	-160	-167
Grand Totals	BA	824	913	997	1,066	1,138	1,210
	O	800	850	929	999	1,072	1,145

* Less than $500 million.

a. In computing total shared jurisdiction, those dollar values allocated to two or more authorizing committees were counted only once.

TABLE B-5. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH AUTHORIZING JURISDICTION (By fiscal year, in billions of dollars)

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Agriculture, Nutrition, and Forestry	BA	36	31	36	34	35	36
	O	43	35	34	32	33	34
Armed Services	BA	245	280	324	352	374	399
	O	215	243	279	311	334	359
Banking, Housing, and Urban Affairs	BA	19	23	25	26	27	28
	O	16	15	17	17	18	18
Commerce, Science, and Transportation	BA	17	18	18	19	19	20
	O	17	17	18	19	19	19
Energy and Natural Resources	BA	10	11	11	12	13	13
	O	11	11	11	11	12	13
Environment and Public Works	BA	27	29	30	31	32	33
	O	24	27	29	30	31	32
Finance	BA	452	488	528	571	611	654
	O	474	500	536	576	619	664
Foreign Relations	BA	26	38	27	27	28	29
	O	23	24	25	26	26	26
Governmental Affairs	BA	55	61	66	72	77	80
	O	40	46	50	54	59	63
Judiciary	BA	5	5	5	5	5	5
	O	5	5	5	5	5	5
Labor and Human Resources	BA	38	41	41	42	44	45
	O	38	39	40	40	44	45
Rules and Administration	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Small Business	BA	1	1	2	2	2	2
	O	1	1	2	2	2	2
Veterans' Affairs	BA	26	26	27	27	27	27
	O	26	26	27	27	27	27

(Continued)

TABLE B-5. CONTINUED

Committee		1983 Base	Projections				
			1984	1985	1986	1987	1988
Select Committee on Indian Affairs	BA	2	2	2	2	2	2
	O	2	2	2	2	2	2
Select Committee on Intelligence	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Total Allocations	BA	958	1,054	1,142	1,222	1,298	1.377
	O	934	991	1,074	1,155	1,232	1,312
Unallocated to Committees	BA	-134	-141	-145	-156	-160	-167
	O	-134	-141	-145	-156	-160	-167
Grand Totals	BA	824	913	997	1,066	1,138	1,210
	O	800	850	929	999	1,072	1,145

APPENDIX C. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS

Both the unified budget and the federal sector of the national income accounts (NIA) measure the receipts and expenditures of the federal government. The national income accounts measure current income and production and are the most widely used indicator of current economic activity. As a rule, the unified budget is used for budgetary analysis while the NIA federal sector is more useful for analyzing the economic impact of federal government activity. This appendix explains the differences between the unified budget and the federal sector of the national income accounts and translates the unified budget projections given in the body of the report into NIA terms.

The NIA estimates of federal activity differ somewhat from those of the unified budget. Specifically, they vary in four areas: timing of transactions; netting and grossing of receipts against spending; treatment of financial activities; and coverage.

Timing differences occur because the unified budget records transactions (except interest owed to the public) on a cash-paid or cash-received basis, while the NIA federal sector may use a cash, accrual, or other basis, depending on the type of transaction. On the receipts side, the most important timing difference is the recording of corporate profit taxes in the NIA at the time the tax liability is incurred, which may be months (or years) before the money is deposited in the Treasury. On the expenditure side, the only major timing difference is the recording of some large defense purchases in the NIA at the time of delivery rather than at the time payment is made. Other timing differences are generally small.

Netting and grossing differences arise because the unified budget treats certain types of receipts as offsets to outlays. For example, receipts by the civil service retirement trust fund and other federal employee benefit plans of employer contributions are counted as a negative outlay in the unified budget, exactly offsetting agency expenditures elsewhere in the budget. In the NIA, this amount is added to both receipts and expenditures in order to provide a more accurate measure of social insurance taxes (on the revenue side) and compensation of employees (on the expenditure side). Other netting and grossing adjustments in the NIA are made for funds collected by the government in the course of business-type transactions--

such as veterans' insurance programs, timber sales, and rents and royalties arising from the Outer Continental Shelf leases.

Lending transactions that involve only the transfer of existing assets and liabilities are generally excluded from the NIA federal sector, since they do not reflect current production of goods or services. For example, direct lending by the Small Business Administration is reflected in the unified budget but is excluded from the NIA. Interest paid or received in the course of financial transactions, though, is reflected in the NIA federal sector. The NIA also records nonrecourse agricultural commodity loans as purchases of goods and services rather than loans.

Coverage differences largely reflect the exclusion of Puerto Rico, the Virgin Islands, and other territories from the United States for purposes of computing the gross national product and related data series in the NIA. The national income accounts, on the other hand, include certain foreign currency transactions and spending by certain off-budget federal entities that are excluded from the unified budget.

Estimates of federal-sector receipts and expenditures on an NIA basis, consistent with the CBO baseline budget projections, are shown in Table C-1.

TABLE C-1. PROJECTIONS OF BASELINE REVENUES AND OUTLAYS ON A NATIONAL INCOME ACCOUNTS BASIS (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
				Receipts		
Personal Tax and Nontax Receipts	302	306	331	355	380	408
Corporate Profits Tax Accruals	52	71	78	90	97	100
Contributions for Social Insurance	228	250	279	303	328	352
Indirect Business Tax and Nontax Accruals	53	59	59	55	54	55
Total	635	686	747	803	860	915
				Expenditures		
Purchases of Goods and Services						
Defense	198	226	261	292	314	338
Nondefense	95	89	93	93	99	102
Transfer Payments	346	361	385	412	443	475
Grants-in-Aid to State and Local Governments	89	94	100	105	111	116
Net Interest Paid	88	95	107	116	126	133
Subsidies less Current Surplus of Government Enterprises	13	13	14	16	17	18
Total	827	877	958	1,033	1,107	1,179

APPENDIX D. BASELINE SPENDING CONCEPTS AND ASSUMPTIONS

Baseline spending projections are designed to show what federal government budget authority and outlays would be in future years if current policies were continued without change. The basic methodology for projecting the different types of spending--direct spending programs and discretionary appropriations--is summarized in the first section of this appendix. The second section is a detailed description of the defense baseline. The third section discusses the special assumptions made for nondefense spending programs in cases where those assumptions differ from the basic methodology or require further details.

OVERVIEW OF BASELINE SPENDING CONCEPTS

Federal spending can be divided essentially into two categories. A large part of federal spending is mandated by existing law. The remainder is subject to annual review through the appropriation process.

Direct Spending

The term direct spending refers to four types of spending that are, in effect, mandatory under existing law: permanent appropriations and trust funds; appropriated entitlements; permanent revolving funds; and offsetting receipts.

Permanent Appropriations and Trust Funds. In some instances, authority to spend may be provided directly in the legislation that authorizes a program, without the need for subsequent annual appropriations. Examples of such direct spending programs include Social Security, unemployment insurance, foreign military sales, farm price supports, and various housing assistance programs. To affect spending in these programs, the basic substantive law usually must be changed. The baseline spending projections for these programs assume that existing law at the close of the last session of the Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in essentially the same way as in the past. Temporary cost-saving provisions enacted in omnibus reconciliation legislation in 1981 and 1982 are assumed to expire as scheduled in law; the major examples of such provisions are listed in Table D-1. (Of course, the Congress may not actually allow these provisions to expire.)

TABLE D-1. MAJOR TEMPORARY COST-SAVING PROVISIONS

Budget Account (and Subfunction)	Provision	Expiration Date
Small Business Administration Disaster Loan Fund (453)	Limitation of access by farmers	Sept. 30, 1983
Medicaid (551)	Reduction in payments to states	Sept. 30, 1984
Medicare (551)	Delay of periodic interim payments	Sept. 30, 1984
	Change in calculating Part B premiums	June 30, 1985
	Increase in funding for audits	Sept. 30, 1985
	Target reimbursement system for hospitals; hospice benefits	Sept. 30, 1986
Military Retirement (051), Civil Service, and Foreign Service Retirement (602)	Limitation on cost-of-living adjustments for retirees under age 62	Sept. 30, 1985
Food Stamps (609)	One-percent reduction in maximum allotment	Sept. 30, 1985
Veterans Administration Housing Loan Programs (704)	Loan processing fee	Sept. 30, 1985

Appropriated Entitlements and Other Mandatory Appropriations. Some benefit programs, called appropriated entitlements, have their budget authority provided in annual appropriations. Examples of appropriated entitlements include Medicaid, Supplemental Security Income, Aid to Families with Dependent Children, and the veterans' compensation and pensions programs. The basic legislation for these programs requires the payment of benefits to any person or government meeting the eligibility requirements. The level of annual appropriations is mandated in these cases by existing law and cannot be altered through the appropriation process. Baseline spending projections for appropriated entitlements, like those for other entitlements, assume that the programs will respond to changes in the economy and in projected program caseload.

In addition, certain appropriated accounts are treated as mandatory for projections purposes, even though they are not considered as entitlements by both the House and the Senate Budget Committees. The list of mandatory items is that used in the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The projections for the food stamp program, for example, are computed as if the program were mandatory, since the Congress has always appropriated enough money to cover all benefit payments to eligible recipients. Other programs treated as mandatory include child nutrition, child support enforcement, unemployment trust fund outlays for training and employment and for administrative expenses, payments to air carriers, Maritime Administration operating differential subsidies, rehabilitation services, government payments for annuitants' health benefits, payments in lieu of taxes, and certain miscellaneous trust funds. Federal payments to civil service retirement and other trust funds, while considered mandatory, are exactly offset by corresponding intragovernmental receipts and have no effect on total outlays.

Revolving Loan Funds. The federal government administers many lending programs through revolving funds. Such funds disburse loans and accept repayments of principal and interest. CBO calculates a baseline for such programs by first developing a lending level for each year of the projection. For fiscal years in which the Congress has set a lending limit, CBO uses that limit as a base for projections. If no limit has been set, CBO estimates the base-year lending level to be equal to average program experience over the past few years, adjusted for inflation. For subsequent years in which the Congress has yet to set a ceiling, CBO projects a baseline lending level by inflating the base-year level. Net budget authority and outlays are estimated using these lending levels, projected loan repayments, and established government accounting practices for revolving funds.

Offsetting Receipts. Certain federal government receipts from the public and certain intragovernmental receipts are automatically credited to special receipt accounts and are treated as negative spending. They are deducted from other budget authority and outlays in computing budget totals rather than being counted as revenues. Examples of such receipts include those from the sale of timber in national forests and those from rents and royalties from Outer Continental Shelf (OCS) lands. In the baseline projections, the amount of these receipts is estimated on the assumption that current government policies regarding the extent of timber sales, the scope and timing of offshore leasing activities, and so forth, will be continued, and that actual receipts will respond to underlying economic and demographic conditions, such as the price of lumber and the expected lease value of particular OCS parcels.

Annual Appropriations

The rest of federal spending requires annual action through the appropriation process. The fiscal year 1983 spending level assumed for these programs is that enacted by the Congress through December 1982. The 1984-1988 projections for the appropriated accounts represent a continuation of the policies and program levels embodied in the 1983 appropriation action. Sometimes it is possible to relate these programmatic assumptions to specific Congressional decisions--for example, a production schedule for space shuttles. In these cases, the baseline figures are the projected budget authority and outlays required to achieve the specified programmatic objectives. The baseline totals for the national defense function are CBO's extrapolation of the fiscal year 1983 Congressional budget resolution.

For the largest number of appropriated accounts, current spending policy cannot be so clearly defined. Future budget authority for these accounts is generally assumed to stay constant in real terms--that is, to keep pace with a measure of inflation appropriate to the particular budget account. In cases where 1982 funds were deferred until 1983, the 1983 projections base is assumed to be the 1983 program level--that is, 1983 budget authority plus the 1982 deferral. This treatment of deferrals has a negligible effect on the current projections, because only 16 budget accounts are involved. The amount of the deferrals totals $84 million, with no individual item exceeding $12 million.

Although statutory authority for most discretionary programs will expire during the five-year projections period, authorizations are assumed to be routinely renewed except for programs that are clearly of a one-time nature, such as temporary study commissions. The projected growth in budget authority is limited by any authorization limit that may have been set by the Congress; if the limit ceases to apply in some future year, budget authority is assumed to rise with inflation thereafter. In three budget accounts, the base-year appropriation exceeds the authorization; in these cases, the projections also ignore the authorization limit. 1/ It is further assumed that budget authority will result in outlays according to the observed historical pattern for the particular account.

DEFENSE BASELINE

The defense baseline projections for 1984 and 1985 are the budget authority and outlay figures specified in the fiscal year 1983 budget resolution. The numbers are the budget resolution assumptions for the national defense function (function 050), less assumed absorption of 50 percent of future pay raises for both military and civilian employees of the Department of Defense, which was contained in the allowances function (function 920).

The 1986-1988 projections are an extrapolation by CBO of the budget resolution figures. They represent a two-percentage-point reduction from the annual rate of growth of budget authority assumed in the Reagan Administration's fiscal year 1983 budget request.

The baseline projections may be divided into two parts: (1) funding for an explicit defense force structure and procurement program that, CBO assumes, were approved during the second session of the 97th Congress; and (2) an additional funding increment to cover cost increases and other program additions not specified to the public. Table D-2 shows these two components of the defense baseline.

The remainder of this section describes the assumed force structure and procurement programs that constitute the programmatic component of the baseline. The outyear force structure reflects announced changes in force level, including the introduction of new weapon systems purchased in the current and previous years and the planned deactivation of obsolete or worn-out systems. The outyear programs are those announced by the Administration through December 1982, adjusted to reflect Congressional action. Other reasons for differences between the President's program and the programmatic component of the CBO defense baseline are (1) repricing of programs by the Administration, and (2) the addition of previously unannounced programs.

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1. The three cases are geothermal resources development (function 270), school assistance in federally affected areas (500), and energy and emergency assistance (600).

TABLE D-2. BASELINE PROJECTIONS FOR NATIONAL DEFENSE (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Programmatic Component of Baseline						
Budget Authority	243.9	267.5	286.7	304.1	322.0	352.7
Outlays	213.5	236.8	259.6	280.5	300.0	320.7
Unspecified Increment						
Budget Authority	---	10.8	35.7	45.9	51.0	45.3
Outlays	---	5.3	18.1	29.5	33.0	37.3
Total (1983 Budget Resolution Extrapolated)						
Budget Authority	243.9	278.3	322.4	350.0	373.0	398.0
Outlays	213.5	242.1	277.7	310.0	333.0	358.0

The programmatic element of the baseline is costed in 1983 dollars, assuming the same per unit level of force activity in the outyears as approved by the Congress in the 1983 continuing resolution and the same level of efficiency over the six-year period. The outyear costs in 1983 dollars are adjusted for inflation using CBO economic assumptions.

Table D-3 shows the programmatic element of baseline budget authority by Defense Planning and Programming Category in current dollars; Table D-4 shows the same data in constant 1983 dollars. The current-dollar amounts are those required to keep the approved 1983 program on track by including full adjustment for projected inflation.

Higher force levels in the projection period require increasing military and civilian personnel under the CBO costing assumptions. Table D-5 shows personnel requirements for each fiscal year.

TABLE D-3. PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of current dollars)

Category	1983 Base	Projections				
		1984	1985	1986	1987	1988
Strategic Forces	23.5	35.3	37.3	36.4	36.8	41.0
Tactical/Mobility Forces						
Land forces	31.8	35.1	37.0	38.8	40.1	40.2
Air Force Tac Air	17.9	18.9	21.6	24.0	26.4	28.2
Navy Tac Air	16.9	10.8	12.0	12.1	13.3	21.3
Marine Corps Tac Air	2.8	2.8	3.3	3.3	3.3	3.3
Naval forces	26.4	31.1	33.3	38.4	43.9	50.0
Mobility forces	4.2	5.9	6.2	6.8	5.3	5.7
Auxiliary Forces	24.3	25.0	26.6	27.6	28.3	29.2
Mission Support Forces	17.3	17.9	18.5	19.2	20.0	21.0
Central Support Forces	52.6	54.3	56.0	57.8	60.1	62.8
Miscellaneous	20.0	24.0	28.0	32.4	37.0	42.0
Subtotal, DoD-Military	237.8	261.2	279.9	296.9	314.4	344.8
Other National Defense	6.1	6.3	6.8	7.2	7.6	7.9
Total a/	243.9	267.5	286.7	304.1	322.0	352.7

a. Details may not add to totals because of rounding.

TABLE D-4. PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of constant 1983 dollars)

Category	1983 Base	Projections				
		1984	1985	1986	1987	1988
Strategic Forces	23.5	33.3	33.1	30.5	29.2	30.6
Tactical/Mobility Forces						
Land forces	31.8	33.6	34.0	34.2	33.9	32.8
Air Force Tac Air	17.9	17.9	19.2	20.1	20.8	21.0
Navy Tac Air	16.9	10.2	10.7	10.2	10.5	15.5
Marine Corps Tac Air	2.8	2.6	3.0	2.8	2.6	2.4
Naval forces	26.4	29.5	29.9	32.4	34.8	37.0
Mobility forces	4.2	5.6	5.6	5.8	4.4	4.5
Auxiliary Forces	24.3	23.9	24.2	24.1	23.7	23.4
Mission Support Forces	17.3	17.4	17.4	17.6	17.8	18.1
Central Support Forces	52.6	52.7	52.9	53.1	53.5	54.3
Miscellaneous	20.0	20.3	20.6	20.9	21.2	21.6
Subtotal, DoD-Military	237.8	247.0	250.6	251.7	252.4	261.3
Other National Defense	6.1	6.1	6.1	6.1	6.1	6.1
Total a/	243.9	253.1	256.7	257.8	258.5	267.4

a. Details may not add to totals because of rounding.

TABLE D-5. ACTIVE MILITARY AND CIVILIAN PERSONNEL IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE (By fiscal year, end-strengths in thousands)

Type of Personnel	1983 Base	Projections				
		1984	1985	1986	1987	1988
Active Officers	297.8	298.7	299.6	299.9	304.9	312.0
Active Enlisted	1,832.2	1,838.4	1,849.3	1,851.4	1,884.4	1,936.4
Civilians	1,050.0	1,051.9	1,057.2	1,059.7	1,071.4	1,082.2

The major results of the baseline projections by Defense Planning and Programming Category are discussed below. Tables D-6 and D-7 show the force levels and major procurement programs, respectively, contained in the projection.

Strategic Forces

The baseline provides significant real dollar growth in strategic forces over the projection period. Budget authority in 1988 is about 30 percent higher in real terms than in 1983. New system orders account for most of the growth as major funding increases are made for the MX missile, Trident II missile, KC-135 reengining, and the B-1B bomber. Changes to deployed forces are also significant, with 7 new Trident submarines, 89 B-1B bombers, and 55 MX missiles being the major additions; offsetting changes include deactivation of all Titan missiles and 31 B-52 bombers.

Tactical/Mobility Forces

Land Forces. Budget authority for land forces increases by only 3 percent in real dollar terms over the projections period. However, important force modernization for Army forces will take place throughout the five-year period. Among the new systems to be ordered are the M-1 tank, Bradley fighting vehicle, and Pershing II missile, with production rates peaking in 1987. Introduction of these new systems should lead to noticeably higher operating costs per unit. The addition of one infantry division in 1988 is the only significant force structure change expected.

Air Force Tac Air. The Air Force tactical aircraft budget rises by about 17 percent in real terms by 1988, driven largely by a nearly 40 percent increase in the budget for aircraft acquisition. Orders for F-15s increase from 39 per year in 1983 to 96 per year in 1988. As these aircraft enter the tactical force, older F-15s will move to fill four strategic air defense squadrons. Orders for F-16s increase from 120 per year in 1983 to 180 in 1986. While some of these aircraft will be used to replace F-4s for force modernization, the remainder will be used to increase the number of active air wings by two. Overall, the number of deployed combat aircraft is 13 percent higher in 1988 than in 1983, causing budget authority for force operations to increase by about $1.0 billion in constant dollars.

Navy and Marine Corps Tac Air. The Navy will operate about 11 percent more combat aircraft and one more aircraft carrier in 1988 than in 1983. Some A-7 and all F-4 aircraft will be phased out in favor of F/A-18 aircraft. To support these force changes, orders for new systems include two nuclear aircraft carriers in 1983, one in 1988, and a carrier entering the service-life extension program in each of 1983, 1985, and 1987. Orders for F-18s rise from 84 in 1983 to 200 in 1988, with 24 F-14s in 1983 and 30 thereafter through 1988. Budget authority for these aircraft rises 55 percent in real terms over this period. Procurement of tactical missiles increases significantly by 1988, especially for the Laser Maverick and Sparrow.

The defense baseline shows that the Marine Corps replaces F-4s with F-18s as deployed aircraft, while AV-8Bs replace A-4s. The AV-8B orders continue, with 18 aircraft in 1983, rising to 60 aircraft per year in 1986. Overall, the Marine Corps tactical aircraft budget declines slightly as new aircraft orders decline.

Naval Forces. Deployed major combatants increase almost 10 percent by 1988 over 1983. Cruisers and frigates show the largest increases, while the number of deployed destroyers is expected to decline nearly 15 percent by 1988 because of retirements. Two of the four battleships being modernized are to be operational by 1985. Between 1983 and 1988, the baseline contains orders for 21 attack submarines, 21 AEGIS cruisers and 12 FFG-7 frigates.

Mobility Forces. Procurement funding for the C-5B strategic airlifter reaches a total of $8.8 billion for 1983 to 1988. Altogether 50 aircraft will be procured, while 42 existing C-5As will undergo wing modifications.

Auxiliary Forces. Funding for the basic research, communications and intelligence, and geophysical activities included in auxiliary forces is essentially constant in real terms.

TABLE D-6. MAJOR ACTIVE FORCE LEVELS USED IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE (By fiscal year, in units of equipment)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Strategic Forces						
Offensive						
Titan	47	35	23	11	0	0
Minuteman	1,000	1,000	1,000	1,000	1,000	1,000
SSBN	3	5	6	8	9	10
B-52	272	272	255	241	241	241
FB-111	58	58	58	58	58	58
B-1B	0	0	2	17	59	89
MX	0	0	0	0	20	55
FBMs	31	31	31	31	31	31
Defensive						
F-106	72	54	36	18	0	0
F-15	18	36	54	72	90	90
Tactical/Mobility Forces						
Land forces						
Army divisions	16	16	16	16	16	17
Marine Corps divisions	3	3	3	3	3	3
Air Force Tac Air						
A-10	300	309	309	309	309	309
F-4	510	479	430	382	329	275
F-15	408	408	408	408	408	408
F-16	372	435	532	627	734	841
F-111	222	222	222	222	222	222
E-3A	26	29	29	29	31	37
Navy Tac Air						
Aircraft carriers	13	13	13	13	13	14
A-6/KA-6	182	182	182	182	182	196
F-14	240	264	264	264	264	288
A-18	20	40	60	80	100	170
F-18	4	8	12	16	44	82
A-7	288	264	240	216	192	132
Marine Corps Tac Air						
AV-8	45	45	45	45	69	104
F-18	42	66	90	114	138	150
A-6	65	65	65	65	65	65
A-4	95	95	95	95	71	36
F-4	108	84	60	36	12	0
Naval forces						
Attack submarines	98	103	106	109	108	108
Destroyers	85	85	85	82	77	73
Frigates	91	97	102	105	107	109
Cruisers	27	28	29	31	35	38
Battleships	1	1	2	3	4	4
Mobility forces						
C-130	234	234	234	234	234	234
C-5A/B	70	70	72	76	82	92

TABLE D-7. MAJOR PROCUREMENT PROGRAMS CONTAINED IN THE PROGRAMMATIC COMPONENT OF THE DEFENSE BASELINE (By fiscal year, in billions of current dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Strategic Forces						
MX	0.0	3.8	4.0	3.8	3.2	2.8
Trident I missile	0.7	0.8	0.5	0.2	0.1	0.1
Trident II missile	---	---	0.2	0.8	1.9	3.9
Trident submarine	1.8	1.8	2.1	1.9	1.9	2.3
B-52 modifications	0.4	0.7	0.4	0.1	0.1	0.1
Cruise missiles a/	0.8	1.5	1.8	2.0	2.1	2.0
B-1 b/	4.0	6.2	7.7	7.6	7.3	8.7
KC-135 reengining	0.5	1.4	1.4	1.5	1.4	1.5
Tactical/Mobility Forces						
Land forces						
Army aircraft	1.9	2.6	2.7	2.6	4.2	4.6
M-1 tanks	1.9	2.3	2.6	2.9	2.5	0.9
Other tracked vehicles	1.9	2.1	2.5	2.6	2.4	2.6
Missiles	2.0	2.9	3.2	3.4	2.6	2.7
Air Force Tac Air						
A-10	0.4	---	---	---	---	---
F-15	1.5	1.5	1.7	2.5	4.4	5.0
F-16	2.2	2.6	3.3	3.8	4.5	4.7
KC-10A	0.8	0.6	0.6	0.7	0.7	0.8
E-3A (AWACS)	0.2	0.2	0.5	0.6	0.5	0.5
Ground-launched cruise missiles	0.5	0.5	0.5	0.4	0.1	0.1
Navy/Marine Corps Tac Air						
CVN	6.6	---	*	*	*	5.4
CVN-SLEP	0.7	0.2	0.8	0.1	0.8	0.2
F-14	1.1	1.4	1.5	1.7	1.8	2.0
F-18	2.5	2.9	3.0	3.5	3.6	6.1
AV-8B	1.0	1.0	1.6	1.5	1.4	1.3
Naval forces						
SSN-688	1.7	2.1	3.1	2.9	3.0	0.8
CG-47	2.9	3.4	3.7	5.2	5.6	4.6
FFG-7	0.7	0.9	0.9	1.4	1.5	1.0
Mobility forces						
Strategic airlift	1.1	2.4	2.4	2.7	0.8	0.9

* Less than $50 million.

a. Air Force ALCM and Navy Tomahawk.

b. 1987-1988 totals represent continued B-1 investment or introduction of Stealth investment.

Mission and Central Support Forces. Higher force and personnel levels will require relatively small real funding increases for various base operations, training, medical support, personnel support, command, and logistic functions.

Miscellaneous. Military retired pay, the largest part of this category, increases with the cost of living and a larger population of military retirees.

Other National Defense. Defense programs of the Department of Energy, the General Services Administration, the Selective Service System, and the Intelligence Oversight Staff are held constant in real terms.

SPECIAL ASSUMPTIONS

Most other spending is projected using the baseline concepts and approaches detailed in the first section of this appendix. This section provides further information for those nondefense budget accounts requiring specialized assumptions or methodology. Accounts projected using the standard techniques are not discussed.

International Affairs (Function 150)

This function consists primarily of nondefense discretionary spending. It also includes the foreign military sales trust fund, the special defense acquisition fund (a revolving fund), and various offsetting receipts. Two accounts--the Export-Import Bank and the Exchange Stabilization Fund--are sensitivity to interest rates. The projections incorporate special assumptions in five areas.

Contributions to Multilateral Development Banks. Periodically, the United States and other donor countries enter into agreements providing additional resources for the multilateral development banks. The replenishment agreement, as it is called, may extend over a number of years, with annual appropriations as partial payments. Once signed, the agreement is treated as binding. If one year's appropriation is less than the scheduled contribution, the difference is included in subsequent budget requests until the full amount is provided.

The replenishments may take the form of subscriptions of paid-in or callable capital or contributions to the concessional lending facilities of the banks. Paid-in capital and contributions to the concessional lending windows require appropriations, while callable capital subscriptions may be provided by limitations in appropriation acts. The projections assume that future replenishments of paid-in capital and contributions to the concessional lending windows of the regional banks will be negotiated with the same terms and conditions as are in the current replenishments, but with no real growth in funding levels. Arrearages, or the difference between the scheduled and the appropriated amounts, are assumed to be provided in fiscal year 1984. The projections assume that new replenishments for the Inter-American Bank, the Fund for Special Operations, the Asian Development Bank, and the Asian Development Fund will be negotiated for fiscal year 1984, and that a replenishment for the International Finance Corporation will begin in fiscal year 1985. The United States is expected to join the African Development Bank in fiscal year 1983, and regular appropriations of scheduled subscriptions are assumed to resume in fiscal year 1984. Because appropriations for the International Development Association (IDA) have been consistently lower than scheduled contributions, no attempt is made to anticipate the size or shape of future replenishments. Instead, the projections are computed by inflating the 1983 base figure.

Public Law 480 Foreign Assistance Program. The Public Law 480 food assistance program is projected using the program limits contained in appropriation acts as the base. Budget authority equals the new appropriations required to finance the program, and outlays equal gross disbursements less receipts credited to the account.

Contributions to International Organizations. These contributions are projected using the assessed amount as the base. The assessments are treaty obligations to cover operating expenses for the organization for a calendar year. Scheduled deferments of assessed contributions for most of the organizations, begun in fiscal year 1981, were completed in fiscal year 1983. Beginning in fiscal year 1984, the projections assume that the full assessed amount for the calendar year will be provided in the appropriations for the subsequent fiscal year.

International Monetary Fund. The United States has been a member of the International Monetary Fund (IMF) since the Bretton Woods Agreement in 1944 and has participated in every increase in IMF resources since then. An increase in the resources of the IMF is currently being negotiated. The Administration is considering an increase in the quotas of 40 to 60 percent and an increase in the General Agreement to Borrow of $16 to $22 billion. The projection assumes that an agreement in the middle of this range will be concluded and that the U.S. participation will require an appropriation. Dollar transfers with the IMF are treated by the Treasury as an exchange of international reserve assets and are not counted as net budget outlays, although they do affect the Treasury's cash position and borrowing requirements.

Export-Import Bank. For the Export-Import Bank, the projection base is the level of direct credit and guaranteed credit contained in appropriation acts. Budget authority measures potential borrowing requirements from bank activity. It equals direct loan obligations less direct credit repayments, direct credit cancellations, and bank net income, plus redemption of debt and any change in the balance of unobligated authority available to the bank. Outlays are a measure of bank net borrowing, or gross disbursements less direct loan principal repayments and net income.

General Science, Space, and Technology (Function 250)

The National Aeronautics and Space Administration research and development (space flight) account primarily funds the space shuttle program. The baseline program level assumes funding of the production of four shuttles at levels that would maintain the current delivery schedules. Projected program costs reflect CBO economic assumptions and adjustments for any anticipated delays. All other programs in this function, which are exclusively discretionary in character, are projected by adjusting the budget authority for inflation.

Energy (Function 270)

This function consists largely of discretionary spending. It also includes two major permanent appropriations (Tennessee Valley Authority and Bonneville Power Administration) and offsetting receipts from the sale of mineral products and electric power.

Tennessee Valley Authority and Bonneville Power Administration

These two accounts are funded by permanent indefinite borrowing authority subject to a cap. The baseline projection of budget authority for these accounts is an estimate of the borrowing authority required to finance their capital investments. The outlay projections are CBO's best estimate of capital spending net of receipts. All operating expenses are assumed to be covered by revenues from ratepayers.

Uranium Enrichment. The baseline projection of budget authority is the difference between revenues and operating expenses for uranium enrichment, as estimated by CBO. The revenue estimates are based on projected sales and unit price for enriched uranium. The operating expenses are projected from the 1983 base and assume a constant level of production and other activities.

Sale of Mineral and Mineral Products. This is an offsetting receipts account, to which are credited the receipts from the sale of oil and other petroleum products from the Naval Petroleum Reserves. The estimate of receipts is based on the estimated price of oil, the rate of production from the reserves, and an estimate of receipts generated from the sale of other petroleum products. It does not include the estimated revenues from windfall profits tax, which appear on the revenue side of the budget.

Strategic Petroleum Reserve. The Congress has moved the appropriation for acquiring oil for the Strategic Petroleum Reserve (SPR) to an off-budget account. The only amounts that remain on-budget are those related to the operation and construction of the SPR. The baseline estimate for SPR operation and construction reflects the 1983 spending level adjusted for inflation. The off-budget projection of current policy for oil acquisition is based on the Administration's latest fill schedule and on CBO's projected price for SPR oil. The projected budget authority represents the obligational authority required to meet the Administration's fill schedule.

Natural Resources and Environment (Function 300)

Spending in this function consists largely of discretionary programs for the development and management of water resources, for conservation and land management, for the development of recreational resources, and for pollution control and abatement. The function also includes substantial offsetting receipts from the sale of timber, minerals, recreation permits, and the like.

Three accounts in this function include money for fighting forest fires on federal lands. The 1983 base levels for these accounts were increased to reflect anticipated supplemental appropriations. The base amounts were then projected based on the historical spending patterns of the respective accounts.

Agriculture (Function 350)

This function includes one major entitlement program--the price support programs of the Commodity Credit Corporation (CCC). The remainder of the function consists largely of discretionary spending.

Agricultural Credit Insurance Fund. The Agricultural Credit Insurance Fund is a revolving fund that makes loans to farmers and sells the resulting loan assets to the Federal Financing Bank (FFB). Budget authority for a given year (for example, 1983) consists of appropriations to make up the crop year statutory minimums. Loan rates are assumed to be maintained at the announced 1983 levels through the 1985 crop year; thereafter the Secretary of Agriculture is assumed to increase loan rates only slightly so that U.S. exports remain competitive. The farmer-owned reserve entry rate is assumed to be held constant at announced 1983 levels. The baseline projections do not reflect the payment-in-kind supply reduction program recently announced by the Administration; the projections will be updated in the near future to take account of this program.

Dairy support prices are assumed to be held to the minimum support levels under law and increased by the parity index for fiscal year 1985 and thereafter at an assumed rate of 7 percent annually. The assessment per hundredweight of marketed milk authorized in the 1982 Reconciliation Act is assumed to rise to $1.00 and remain at that level until fiscal year 1988, when it is assumed to be reduced to $0.50.

CCC budget authority estimates are based on estimated realized losses from the previous two years' activity. No estimate is made of additional borrowing authority necessary to meet net obligations.

Commerce and Housing Credit (Function 370)

In addition to funds for housing credit and thrift deposit insurance, this function includes funding for the Small Business Administration's loan programs and the Postal Service subsidy, and for parts of the Department of Commerce. The function contains several major revolving funds: the Department of Agriculture's rural housing insurance fund; the Department of Housing and Urban Development's housing for the elderly and handicapped program and special assistance functions fund; and the Federal Savings and Loan Insurance Corporation (FSLIC) and Federal Deposit Insurance Corporation (FDIC) funds. Except for the FSLIC and FDIC funds and some other smaller permanent appropriations, spending in this function is discretionary.

Rural Housing Insurance Fund. In addition to its direct loan program, the RHIF also includes the rural rental assistance program. The baseline assumes that budget authority for this program will be sufficient to assist the same number of additional units per year as is implicit in the base-year appropriation.

Federal Housing Administration Fund. The Federal Housing Administration insures certain private mortgage loans. Budget authority is required when insurance claims exceed income in a given year. The current policy baseline for this account, therefore, is derived from estimates of insurance claims and fund income in each year, assuming continuation of the program in its current form.

Payment to the Postal Service. The payment to the United States Postal Service (USPS) has historically included three components, each of which is projected separately. (1) Unfunded liabilities include liabilities for unfunded annual leave and workers' compensation that had accrued to the Post Office Department before it was reorganized in 1970. The unfunded annual leave was fixed at $31 million annually through 1983, $14.4 million in 1984, and zero thereafter. For projections purposes, the workers' compensation liability is held constant in real terms. Consistent with the 1981 Reconciliation Act and the continuing appropriations resolution for fiscal year 1983, the payment for unfunded liabilities for the years 1982-1984 has been deferred until 1985; beyond 1985, the normal payment level is assumed. (2) The baseline projection no longer includes an allowance for public service costs, since no funding has been appropriated for 1983, and the 1981 Reconciliation Act did not authorize the subsidy beyond 1984. (3) The payment for revenue forgone is the compensation for revenues lost when the Congress has specified reduced postage rates for certain classes of mailers. For 1984, the payment is projected at $760 million, the limit specified in the 1981 Reconciliation Act. For subsequent years, the payment is assumed to be the lower of the 1984 base adjusted for inflation, or the estimated revenue forgone payment assuming the phasing schedule authorized in current law.

Periodic Censuses and Programs. The baseline is irregular because of the cyclical nature of the activities conducted by the Bureau of the Census. An adjustment is made to exclude one-time items (major capital expenditures) and to include future censuses required by law. The mid-decade census is no longer included, however, since no appropriation has been made, and since there is no longer sufficient time available to implement such a census. Finally, the various major components are adjusted for inflation.

Transportation (Function 400)

This function consists primarily of discretionary programs for highway, railroad, mass transit, air, and water transportation. It also includes two entitlements--Coast Guard retired pay and settlements of railroad litigation--and receipts from the Panama Canal.

Federal-Aid Highways. Budget authority for the interstate highway program and the emergency relief program is projected to remain constant ($4 billion and $100 million, respectively) through the projection period, as specified in the Surface Transportation Assistance Act of 1982 (P.L. 97-424). Budget authority for noninterstate highway programs is provided through 1986 by P.L. 97-424 and is held constant in real terms thereafter. Outlays are projected based on the obligation limitations, which are held at the ceilings established by P.L. 97-424 through 1986 and are inflated thereafter by a price index for construction costs.

Washington Metropolitan Area Transit Authority. The interest payments for the Washington Metropolitan Area Transit Authority are projected to remain constant over the projection period at $51.7 million. This represents the federal government's two-thirds share of interest payments due on WMATA's outstanding debt issue.

Northeast Corridor. At the beginning of fiscal year 1983, $525 million in unappropriated authorizations remained available for the Northeast Corridor Improvement Project, and the appropriation for 1983 is $115 million. CBO inflates the 1983 appropriation by a price index for railroad equipment to derive the 1984 through 1986 baseline budget authority, with the remainder of the current authorization assigned to 1987.

Grants-in-Aid for Airports. Budget authority for fiscal years 1983 through 1987 is established for this program in the Surface Transportation Assitance Act of 1982 (P.L. 97-424). For fiscal year 1988, 1987 budget authority is assumed to be held constant in real terms. For 1983, outlays are estimated on the basis of the enacted obligation ceiling of $600 million. For later years, it is assumed that the obligation ceiling for the program will equal the budget authority.

Operating Differential Subsidy. The Maritime Administration's operating differential subsidy program is designed to offset the higher costs of operating U.S. flag vessels in foreign trade. The projection of budget authority represents the estimate of the federal government's liability under the contracts in force for the projection period, which depends on an assumed ship mix, trade routes, products carried, and number of ship-years.

Mass Transit. The Surface Transportation Assistance Act of 1982 (P.L. 97-424) set aside one cent of the gasoline and diesel fuel excise tax for mass transportation purposes. The act established budget authority for this capital acquisition account for fiscal years 1983 through 1986. Budget authority for fiscal years 1987 and 1988 is projected to equal the 1986 level of $1.1 billion, based on estimates of the tax set-aside for those years.

Highway Safety Grants. Budget authority for state and community highway safety grants is established by law through 1986 and is projected to be held constant in real terms thereafter. To project outlays, it is assumed that the obligation ceiling will equal budget authority.

Community and Regional Development (Function 450)

This function contains discretionary programs to redevelop urban and rural areas, stimulate economic growth in certain regions, and aid Indian tribes, as well as some small permanent appropriations and offsetting receipts.

Three major programs in this function are aimed at mitigating the effects of natural disasters on individuals, local governments, and businesses: flood insurance, disaster relief grants, and Small Business Administration (SBA) disaster loans. Because of the volatility of these programs, the baseline projections reflect historical averages rather than just the 1982 experience. (In past years, funding has generally been provided in a supplemental appropriations bill.) For disaster relief grants and SBA disaster loans, the average is based on the experience of the last 12 years. For flood insurance, the average is based on the net activity of the program since 1978, when the government terminated the shared risk approach to underwriting flood insurance. The average base-year program levels are adjusted for legislative or administrative changes in eligibility criteria, premium levels, or interest rates, and for inflation in future years.

Education, Training, Employment, and Social Services (Function 500)

This function contains a wide variety of education, manpower, and social services programs that are primarily discretionary in nature. It also includes three major entitlement programs: guaranteed student loans, social services grants under Title XX of the Social Security Act, and grants to states for vocational rehabilitation. Outlays for guaranteed student loans depend on the Treasury bill rate.

Corporation for Public Broadcasting. The Corporation for Public Broadcasting is advance funded; the fiscal year 1983 appropriations act provides funds for 1985. The baseline in 1983-1985 reflects the amount appropriated for those years. After 1985, the baseline is derived by inflating the 1985 appropriation by estimated price changes.

Job Training Partnership Act. The Job Training Partnership Act authorizes forward funding beginning in 1984. The 1984 budget authority level reflects the transition to forward funding. In 1984, budget authority includes three-quarters of current-year funding and forward funding beginning in July 1984. This transitional funding also occurs in the federal fund portion of the employment service authorized under the Wagner-Peyser Act.

Health (Function 550)

The health function includes two major entitlement programs (Medicare and Medicaid), a large mandatory appropriation (federal payments for annuitants' health benefits), and a variety of discretionary health research, services, training, and regulation activities.

Income Security (Function 600)

The income security function includes both cash and in-kind benefit programs. Most of these programs are entitlements that are automatically indexed for inflation.

Social Security. In developing the baseline projections, it has been assumed that the authority for borrowing among the old-age and survivors insurance, disability insurance, and hospital insurance trust funds will be extended beyond its current expiration. It was also assumed that current law Social Security benefits will be paid, presumably out of general revenues, even if the trust funds do not have sufficient balances.

Interest payments to the old-age and survivors insurance (OASI) trust fund, once it is depleted, are treated in a manner consistent with that presented in the annual report of the Social Security Board of Trustees. When the OASI trust fund is depleted, interest payments on the deficit are counted as negative income. This negative budget income is an estimate of the amount of interest OASI would need to pay in order to borrow the funds necessary to maintain benefits. The source of these funds may be the other trust funds, the general fund of the Treasury, or other lenders.

Interest on the actual borrowing occurring in fiscal year 1983 is shown as outlays from OASI and as budget authority to the disability insurance and hospital insurance trust funds. Since these payments are purely intragovernmental, they are offset by a receipt in function 900. This presentation of the interest on the actual borrowing is consistent with that used in the President's budget.

Railroad Retirement. Like Social Security, the railroad retirement program will not have sufficient revenues to cover all benefit payments during the projections period. The projections nevertheless assume that all current law benefits will be paid. The projections make no assumption that the railroad retirement trust fund will pay interest after its balances are exhausted.

Subsidized Housing Programs. Funds appropriated annually for this account provide assistance to low-income households through various rent subsidy programs administered by the Department of Housing and Urban Development (HUD). The distribution of assistance among the various subsidy programs is derived from spending set-asides included in appropriations and authorizations bills and information furnished by HUD. From this distribution, CBO estimates the number of additional units for which assistance contracts can be executed within the base-year appropriation. The baseline projection is an estimate of the funding that would be required to maintain this level of newly assisted units in each of the following five years.

Public Housing Operating Subsidies. Each year the Congress provides appropriations to subsidize the operating expenses of public housing projects. The baseline projections represent estimates of the funds required in each year to maintain the real level of assistance for each housing unit that is implicit in the base-year funding level. The year-to-year projections will grow, therefore, because of increases both in costs and in the number of units eligible for assistance. The estimated annual change in units assisted is consistent with program mix assumptions used for the subsidized housing programs.

Refugee and Entrant Assistance. The projections for refugees and entrants are based on the number of refugees entering the United States. This number is projected to fall in each year of the period. Therefore, total costs will not increase at the same rate as inflation.

Veterans' Benefits and Services (Function 700)

Veterans' benefits and services consist of those federal programs designed for veterans, their dependents, and their survivors. About two-thirds of the spending of this function consists of entitlements and other mandatory programs providing income assistance, education benefits, and housing loans. The remaining one-third consists of discretionary spending, largely for medical care.

Veterans' Compensation. The veterans' and survivors' compensation program is not indexed for inflation by law, but the benefit levels have historically been adjusted through annual legislation to cover increases in the cost of living. The baseline for this account, therefore, assumes annual cost-of-living increases effective each October and equal to the percentage adjustment in Social Security and veterans' pension benefits.

Veterans' Readjustment Benefits. This program is not indexed for inflation by law and receives legislated increases in benefit levels only sporadically. Since the timing and amount of future legislated increases cannot be predicted with any degree of confidence, the baseline for this account assumes no change in the current benefit rates.

Administration of Justice (Function 750)

This function includes the costs of law enforcement, prosecution, the federal courts, prisons, and criminal justice assistance to state and local governments. It consists almost entirely of discretionary appropriations, which are projected to be held constant in real terms.

General Government (Function 800)

This function includes the activities of the Legislative Branch, the White House and the Executive Office of the President, and the agencies responsible for personnel management, fiscal operations, and property control. The only major entitlement is for payment of certain claims against the United States.

Official Mail Costs. Congressional postage fees are paid out of this account. CBO's projection of mail costs is based on estimated usage and reflects historical patterns.

Federal Buildings Fund. This revolving fund finances the real property operations of the government. Space and services are provided to agencies by the General Services Administration (GSA), which is reimbursed by the agencies. Obligations and disbursements from the fund are subject to limitations on the availability of revenue imposed through the appropriations process. CBO's estimate of outlays is based on the sum of estimated outlays for property management and estimated receipts from the collection of standard-level user charges from agencies.

The continuing appropriations resolution for fiscal year 1983 limited the extent to which GSA may increase user charges during 1983. The baseline projections assume that the limitation will not be reimposed in fiscal year 1984 and that user charges will be increased to market levels. In later years, it is assumed that user charges will be increased at the same rate as the cost of providing building services. The projections without discretionary inflation adjustments assume that both GSA expenditures and agency reimbursements will be held at their 1983 level; this would require an appropriation, since expenses currently exceed receipts.

General Purpose Fiscal Assistance (Function 850)

The payments in this function provide undesignated, general financial assistance to state and local governments and U.S. territories, including payments provided through general revenue sharing and loans and payments to the District of Columbia. Most spending in this function is mandatory.

Forest Service and Bureau of Land Management Miscellaneous Permanent Appropriations. Certain percentages of the federal government's receipts from leasing rights and logging on federal land are paid to local units of government. CBO projections for these permanent appropriations are therefore based on estimated timber and mineral receipts, which are recorded in function 300.

Payments in Lieu of Taxes. This program provides for payments to local governments that have certain federally owned land within their boundaries. Payments to local jurisdictions are based primarily on the acreage of such land and on the population of the jurisdiction. Estimated budget authority and outlays for this program are held constant over time because CBO assumes no significant change in the total acreage in the program and in the population of the jurisdictions involved.

General Revenue Sharing. Budget authority for payments to local governments under the general revenue sharing entitlement program is limited by the authorizing legislation to $4.6 billion in fiscal year 1983, when the program's authorization expires. The CBO baseline projects budget authority in subsequent years by inflating the $4.6 billion figure.

Net Interest (Function 900)

The net interest function is the sum of three components: interest on the public debt, interest received by certain trust funds, and other interest. All of the second component and most of the third are composed of offsetting receipts.

Interest on the Public Debt. Interest on the public debt is calculated based on projections of interest rates and the value of outstanding debt securities. The growth each year in total debt is the sum of borrowing from the public and new debt issued to federal government trust funds.

Borrowing from the public in each fiscal year is the total of the unified and off-budget deficits, less reductions in cash balances and other means of financing those deficits. The Treasury borrows throughout each fiscal year in accordance with fairly predictable seasonal patterns by issuing various debt instruments (primarily bills, notes, and bonds sold at auction). In addition, the stock of existing debt is rolled over on scheduled dates at rates equal to rates on new borrowing.

The public debt also includes debt issued to federal trust funds and certain other funds (for example, escrow accounts for bids on disputed tracts on the Outer Continental Shelf). Net new purchases of securities by these funds are estimated consistent with baseline projections of fund income and outgo. Most of these interest costs are offset in the next subfunction.

Interest Received by Certain Trust Funds. A portion of interest on the public debt is paid by the Treasury to government trust funds, which invest in U.S. government securities. The interest received by those trust funds in recorded as an intragovernmental receipt.

Other Interest. This subfunction includes interest payments on tax refunds and, as offsets, various interest collections from federal agencies and the public. The projection of interest on tax refunds is based on projected baseline tax revenues and interest rates. Interest receipts from off-budget agencies (primarily the Federal Financing Bank) are projected using lending and repayment assumptions consistent with baseline projections of off-budget spending. Interest earnings on tax and loan account balances are estimated using Treasury assumptions of average balances and CBO forecasts of short-term interest rates. Treasury interest receipts from other on-budget federal agencies are set equal to the corresponding interest outlays implicit in projections of other budget accounts.

Allowances (Function 920)

The base-year (fiscal year 1983) figures for this function represent the estimated budget authority and outlays provided to civilian agencies in a supplemental appropriation covering the cost of the October 1982 pay raise covering the cost of the October 1982 pay raise as well as each agency's share (as employer) of the Medicare hospital insurance tax. Federal civilian employees not previously covered (and their employing agencies) became liable for this tax on January 1, 1983. The estimate assumes that civilian agencies will be required to absorb 50 percent of the cost of the pay raise and the Medicare tax out of previously appropriated funds, as was assumed in the fiscal year 1983 budget resolution.

The effects of the October 1982 pay raise during the projections period (fiscal years 1984-1988) are shown in the appropriate salary and expense accounts in the other functions of the budget. The baseline projections assume that budget authority will be increased to pay for the full cost of the 4.0 percent October 1982 pay raise and the employer's share of the hospital insurance tax. No absorption is assumed in the outyears.

The 1984-1988 baseline projection for this function contains all budget authority and outlay growth resulting from anticipated pay rate increases for employees of civilian agencies. The projections assume that all federal civilian workers, including those now at the pay ceiling, will receive pay rate adjustments equal to the annual rate of increase in private-sector pay. These increases are projected to be 5.5 percent in October 1983 and 4.8 percent in each of the next four years. No absorption of the cost of these pay adjustments is assumed, since any action regarding absorption represents a policy decision that is separate from decisions about federal pay rates.

The methodology for estimating pay costs is described in a recent CBO paper, *The Budgetary Treatment of Federal Civilian Agency Pay Raises: A Technical Analysis*.

Undistributed Offsetting Receipts (Function 950)

Certain offsetting receipts are classified as undistributed offsetting receipts rather than being included in any of the other functions.

Employer's Share, Employee Retirement. The government's contribution to federal employee retirement plans is assumed to grow in proportion to assumed pay rate increases and scheduled increases in contribution rates. This includes federal agencies' share of the Social Security hospital insurance tax, for which all federal workers and their employing agencies became liable on January 1, 1983.

Outer Continental Shelf Receipts. OCS receipts consist of cash bonus bids from lease sales, annual rental payments, royalties on oil and gas revenue, and payments to the federal government resulting from the release of disputed OCS receipts from escrow accounts. Bonus receipts for 1983 and 1984 are estimated on a sale-by-sale basis, reflecting bonus bids on previous offerings in the area in which a sale will occur, and the U.S. Geological Survey (USGS) estimate of oil and gas reserves in the sale area. Bonus receipts for subsequent years are assumed to remain at the 1984 level. Escrow releases are dependent upon resolution of various court cases; timing of those releases is estimated based on information from the Department of the Interior's Solicitor's Office. Rent and royalty receipt estimates are based on USGS projections of oil and gas production.

APPENDIX E. BASELINE REVENUE CONCEPT AND ASSUMPTIONS

As mentioned in Chapter III, baseline revenues are revenues generated under existing tax law. There is one exception to this rule. Airport and airway trust fund taxes are assumed to be extended at current rates beyond the scheduled expiration date of December 31, 1987.

All other tax provisions that are scheduled to expire during the 1983 through 1988 period are assumed to do so as specified in the law. Among these expiring provisions are some energy tax credit provisions and the temporary cigarette and telephone excise tax increases. The following list shows the significant tax provisions (other than the airport and airway trust fund taxes) with expiration dates during the projection period and the expiration dates.

TABLE E-1. TAX PROVISIONS EXPIRING DURING 1983-1988 PERIOD

Provisions	Dates of Expiration
Revenue-Raising Provisions (Expiration of Legislation Causes Revenue to Decline)	
Excise Taxes	
Cigarettes	September 30, 1985
Hazardous Substance Trust Fund	September 30, 1985
Telephone	December 31, 1985

	1984	1985	1986	1987	1988
Approximate Revenue Effect a/ (in billions of dollars)	---	---	-3	-4	-4

Provisions	Dates of Expiration
Revenue-Losing Provisions (Expiration of Legislation Causes Revenues to Increase)	
Life Insurance Stopgap Provisions	December 31, 1983
Energy Tax Expenditures	
Alternative, Conservation, and New Technology Credits b/	December 31, 1982
Credit for Cogeneration Equipment	December 31, 1982
Residential Energy Credits	December 31, 1985
Credit for Geothermal Equipment	December 31, 1985
Credit for Solar and Wind Property	December 31, 1985
Credit for Ocean Thermal Energy Conversion Equipment	December 31, 1985
Credit for Small-Scale Hydroelectric Facilities	December 31, 1985
Credit for Biomass Property	December 31, 1985
Credit for Intercity Buses	December 31, 1985
Exclusion of Interest on State and Local Bonds for Small-Scale Hydroelectric Facilities	December 31, 1985

(Continued)

TABLE E-1. (Continued)

Provisions	Dates of Expiration
Other Tax Expenditures	
Deduction for Eliminating Architectural and Transportation Barriers for the Handicapped	December 31, 1982
Exclusion of Interest on Certain Savings Certificates	December 31, 1982
Safe-Harbor Leasing c/	December 31, 1983
Exclusion for Employer Educational Assistance Programs	December 31, 1983
Suspension of Regulations Relating to Allocation under Section 861 of Research and Experimental Procedures	December 31, 1983
Exclusion of Interest on State and Local Bonds for Owner-Occupied Housing	December 31, 1983
Exclusion of Contributions to Prepaid Legal Services Plans	December 31, 1984
Targeted Jobs Tax Credit	December 31, 1984
Exclusion of Interest on State and Local Bonds for Mass Transit	December 31, 1984
Exclusion for Employer-Provided Transportation	December 31, 1985
Credit for Increasing Research Activities	December 31, 1985
Public Utility Dividend Reinvestment Plans	December 31, 1985
Deduction for Charitable Contributions for Nonitemizers	December 31, 1986
Exclusion of Interest on State and Local Small-Issue Industrial Development Bonds	December 31, 1986
Credit for Employee Stock Ownership Plans (ESOPs)	December 31, 1987

(Continued)

Table E-1. (Continued)

Provisions	1984	1985	1986	1987	1988
Approximate Revenue Effect (in billions of dollars)	+5	+9	+10	+13	+17
Net Revenue Effect of All Provisions (in billions of dollars) d/	+5	+9	+7	+9	+13

a. In addition to affecting incomes, excise taxes affect income tax revenues because they are deductible business expenses.

b. Under certain circumstances, expiration date is extended to December 31, 1985. Energy incentives with other expiration dates are noted elsewhere.

c. Replaced by a finance leasing provision in TEFRA.

d. Detail may not add to totals because of rounding.

APPENDIX F. BASELINE CREDIT PROJECTIONS BY FUNCTION

The discussion of credit in Chapter V was organized in terms of six major program categories. Like outlays, however, credit projections can also be organized by budget function as they are in the Congressional budget resolutions.

Table F-1 shows the distribution of credit by budget function. Housing loans appear in several functions--primarily commerce and housing credit, income security, and veterans' benefits and services. Loans for business and industry are found mostly in the international affairs, energy, and commerce and housing credit functions. Loans for agriculture and rural development are distributed among the energy, agriculture, and community and regional development functions. The education, training, and social services function contains the bulk of loans to individuals.

TABLE F-1. BASELINE CREDIT PROJECTIONS BY BUDGET FUNCTION (By fiscal year, in billions of dollars)

		1982 Actual	1983 Base	Projections				
				1984	1985	1986	1987	1988
National Defense (050)	DL	---	---	---	---	---	---	---
	PG	*	---	---	---	---	---	---
International Affairs (150)	DL	10	11	11	12	12	13	13
	PG	10	9	10	10	11	11	12
General Science, Space, and Technology (250)	DL	*	*	*	---	---	---	---
	PG	---	---	---	---	---	---	---
Energy (270)	DL	10	12	13	13	13	14	13
	PG	1	-1	-1	-1	*	*	*
Natural Resources and Environment (300)	DL	*	*	*	*	*	*	*
	PG	---	---	---	---	---	---	---
Agriculture (350)	DL	22	12	9	9	9	10	10
	PG	2	3	3	3	3	3	3
Commerce and Housing Credit (370)	DL	11	9	11	9	8	9	10
	PG	13	40	42	44	46	48	50
Transportation (400)	DL	*	*	*	*	*	*	*
	PG	1	1	*	*	*	*	*
Community and Regional Development (450)	DL	2	2	3	3	2	2	3
	PG	1	1	*	1	1	1	1
Education, Training, Employment, and Social Services (500)	DL	1	1	1	1	1	1	1
	PG	5	6	6	6	6	6	6
Health (550)	DL	*	*	*	*	*	*	*
	PG	*	*	*	*	*	*	*
Income Security (600)	DL	2	1	*	*	*	*	*
	PG	27	20	20	20	20	20	20
Veterans' Benefits and Services (700)	DL	1	1	1	1	1	1	1
	PG	6	7	8	11	13	16	19
General Government (800)	DL	*	---	---	---	---	---	---
	PG	---	---	---	---	---	---	---
General Purpose Fiscal Assistance (850)	DL	*	*	*	*	*	*	*
	PG	1	---	---	---	---	---	---
Total	DL	60	49	49	49	47	50	52
	PG	67	87	90	95	101	106	111

DL	Net Direct Loan Obligations
PG	Primary Loan Guarantee Commitments